# Corporate Governance




Derivatives

# Corporate Governance Overview Statement

Corporate governance is crucial to enable effective and prudent management of our organisation in delivering sustainable value for all our stakeholders. The objectives of our corporate governance are clear – to ensure that our business is conducted in a transparent, ethical, fair and responsible manner, in compliance with all relevant laws and regulations.

The Board of Directors (the "Board") of MBSB firmly believes in the importance of good corporate governance in realising our vision for MBSB Bank to become a top progressive Islamic bank and is fully committed to ensure that the highest standards of corporate governance and integrity are applied throughout our organisation via our governance structures and core values supported by robust policies and procedures. We adopt the principles and best practices of corporate governance as prescribed in the Malaysian Code of Corporate Governance ("MCCG") 2017 and those outlined by other regulatory bodies such as Bank Negara Malaysia's guidelines on Corporate Governance, where appropriate. MBSB is also a member of the Federation of Public Listed Companies Berhad.

The Board is pleased to present our Corporate Governance ("CG") Overview Statement which outlines our approach to governance in practice and the key Board activities in 2019. This CG Overview Statement focuses on the following three (3) key CG principles of MCCG 2017:

A. Board Leadership and Effectiveness

B. Effective audit and risk management

C. Integrity in corporate reporting and meaningful relationship with stakeholders

This CG Overview Statement is prepared in compliance with Bursa Malaysia Securities Berhad ("Bursa Malaysia") Main Market Listing Requirement ("MMLR") and it is to be read together with the Corporate Governance Report ("CG Report") 2019 which is available on MBSB's website at *https://www.mbsb.com.my/ar.html*

In October 2019, our Company Secretary presented the findings and observations concerning our governance level at MBSB based on the reports from Bursa Malaysia's Corporate Governance Monitor as well as the Minority Shareholder Watchdog Group ("MSWG")'s 2018 CG Assessment. MSWG's 2018 CG Assessment was based on the ASEAN CG Scorecard 2018 which adopted the Organisation of Economic Cooperation and Development ("OECD") Principles of Corporate Governance as its main benchmark.

Ranked
**25th**
In MSWG-ASEAN CG Awards 2018: Top 100 Companies for CG disclosure category

Achieved
**3.7** out of 5 In the FTSE4Good ESG rating for 2019

In the latest MSWG-ASEAN CG Awards held in July 2019, we were proud to be ranked amongst the Top 100 Malaysian public listed companies ("PLCs") for corporate governance, out of the 866 PLCs assessed. Our continuous efforts in improving our CG disclosures and practices were recognised as MBSB was ranked 25th in the Top 100 Companies for CG disclosure category. MBSB's ranking for the overall CG and performance category had also improved to 52nd place, up from 63rd in the previous year.

We are also a proud constituent of FTSE4Good Bursa Malaysia Index ("F4GBM") since 2016. Our FTSE4Good ESG rating had also improved from 3.4 in 2018 to 3.7 in 2019, allowing us to retain our inclusion in the F4GBM this year.

## A. BOARD LEADERSHIP AND EFFECTIVENESS

**Board Responsibilities**

The Board sets the tone from the top and is collectively responsible for overseeing the conduct of the Group's business as well as the Management's implementation of the Group's strategic objectives including its performance to ensure the sustainability of the Group and its ability to create long-term value, not only for our shareholders, but also for our broader stakeholders.

The Boards of MBSB and MBSB Bank Berhad ("MBSB Bank") (together, the "Boards") are guided by their own respective Board Charters which clearly identifies the respective Board's role, duties and responsibilities. Each of the Board Charters also outlines the processes and procedures to ensure the effectiveness and efficiency of the Boards and their Committees.

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

The Boards have entrusted its Committees with specific responsibilities to oversee the Group's affairs in accordance with their respective Terms of Reference and remain responsible and keep abreast with the key issues and decisions made by the respective Committees through the reports escalated to the Boards as well as the minutes of meetings which capture the detailed deliberations and were subsequently tabled to the Boards for notation.

> *The Board Charters for MBSB and MBSB Bank are available online at www.mbsb.com.my and www.mbsbbank.com, respectively*

Since the acquisition of Asian Finance Bank Berhad ("AFB") in 2018 and the subsequent change of name to MBSB Bank Berhad in the same year, the Group had since undertaken a rebranding exercise to revitalize MBSB Bank's Corporate identity and its brand outlook as a progressive full-fledged Islamic bank which enhance the brand's positioning and corporate image in the market, in line with MBSB's new strategic business direction.

The Board of MBSB in consultation with the Board of the Bank determines the strategic direction of the Group to ensure that the Group achieves its initiatives as set in the Business Plan.

> *Refer to the Management Discussion and Analysis section for more information on the Business Plan*

**Board Activities**

During the year, the Boards convened regularly to examine the progress of the integration between MBSB and the Bank, the enhancement and changes required to the core banking system to meet the latest changes to the banking and regulatory requirements, the budget or resources required, the progress of the Business Plan and the future growth for the Group. Furthermore, the Boards had also convened to review and set the performance scorecard targets of the Group and targets for the Group President and Chief Executive Officer ("Group PCEO").

In 2019, the Boards reviewed their respective Board Charters to ensure uniformity of the policies and guidelines applied across the Group. From the review, enhancements were made to provide clarity on the definition of "Executive Director" which is aligned to the BNM's Guideline on Corporate Governance. In addition, enhancements were also made on the Criteria for Independent Directors, restriction on directorship and standardisation of some of the terms. The TOR of the Board and Management-led Committees as well as the Policies and Procedures were also reviewed and revised during the year to reflect the necessary changes in the internal process and regulatory requirement for better operational efficiency and readiness.

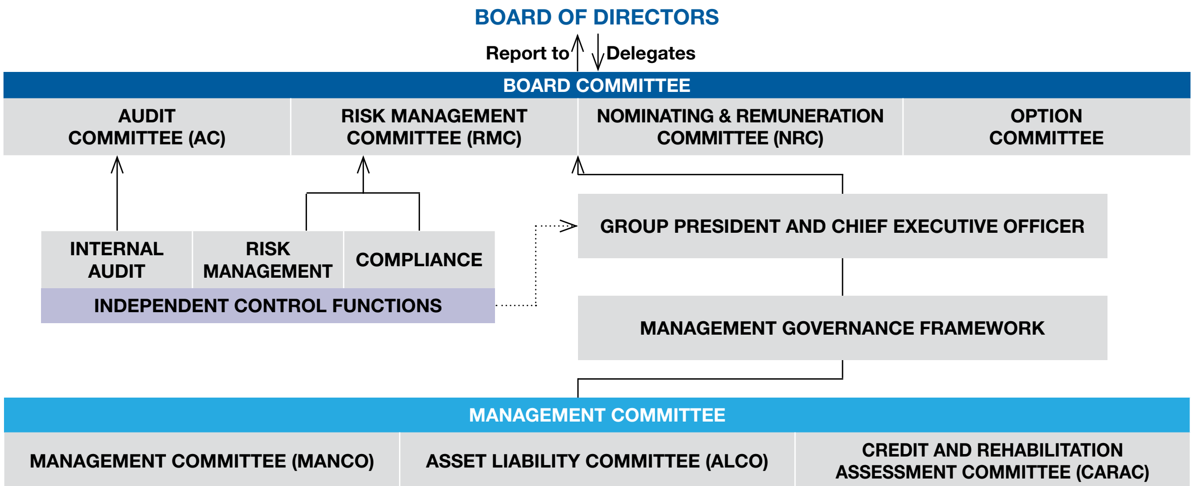
> *Refer to MBSB CG Report 2019 for more information on the number of meetings conducted and Board attendance in 2019*

# Corporate Governance Overview Statement

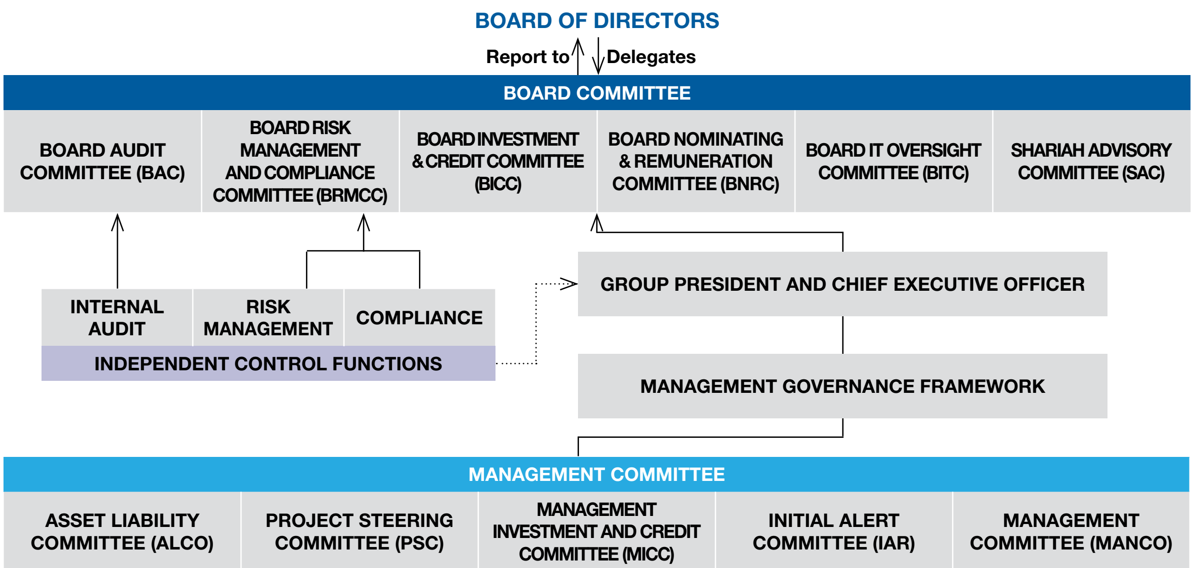
**Leadership and Governance Structure**

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

**GOVERNANCE MODEL & FRAMEWORK: MBSB**




**GOVERNANCE MODEL & FRAMEWORK: MBSB BANK BERHAD**



The governance structure of the Group is supported by the AA Manual which delineates relevant matters and approving authority limits, including those reserved for the Board's approval and those which the Board may delegate to the relevant Board Committees, the Group PCEO and Management. The governance structure, TOR, Board Charter and the AA Manual will be reviewed at least once every two years or as and when required, to ensure an optimum structure for efficient and effective decision-making in the organisation.

In March 2020, prior to the issuance of this annual report, the Board Information Technology Oversight Committee ("BITC") was established at MBSB Bank level in conformance with the requirements of the Risk Management in Technology ("RMiT") Guidelines issued by BNM. The BITC comprises 3 Independent Non-Executive Directors. The BITC is chaired by a director with IT background.

**Ethical Business Conduct**

The Boards have established the Directors' Code of Ethics in line with the practices in the MCCG. The Directors observe the Code of Ethics in performing their duties and are fully subscribed to highly ethical standards considering the interest of all stakeholders.

The Group has put in place the Code of Conduct and Ethics for employees as well as the Whistleblowing Policy to encourage employees to report on suspected fraud, misconduct behaviour and/or violations of the Code of Conduct and Ethics, directives or policies issued by the Group. This is to support the Group's values in upholding the highest standard of personal and professional integrity, ensure employees can raise concerns without fear of reprisals; and provide a transparent and confidential process for dealing with genuine concerns pertaining to safeguarding MBSB's interests.

The Board had on 19 September 2019 approved the establishment of the Integrity Governance Unit ("IGU") for the Bank, in which the Chief Compliance Officer helms the role of the interim Head. The main purpose of IGU is to ensure honest work culture amongst the Bank's employees including members of Senior Management and the Board and to combat bribery, corruption and abuse of power

> *Further information on MBSB and MBSB Bank Whistleblower Policy is available online at www.mbsb.com.my and www.mbsbbank.com, respectively*

The Group does not tolerate any form of bribery, corruption and abuse of power. MBSB Bank's Fraud and Corruption Control Policies and Procedures provide the basis for managing the risk of fraud and corruption which should be read together with the Whistleblowing Policy.

In addition, the Group has established the Anti-Money Laundering and Counter Financing of Terrorism ("AML/CFT") Framework which is part of the Compliance policy for the Group. The Group is committed to fully cooperate with the relevant local and international competent authorities and law enforcement agencies in combating money laundering and financing of terrorism. Appropriate internal controls and procedures for money laundering prevention are in place. The Group's Compliance Division carries out regular checks and training to ensure that the employees are fully aware and committed in discharging their obligations.

# Corporate Governance Overview Statement

In February 2019, the Group has also established the Related Party Transactions Policy that outlines the roles and responsibilities expected of the Management and the Boards, as well as other relevant divisions or departments within the Group. It provides the guidance on transactions that involve related parties and ensuring that such transactions are conducted at arm's length basis and in accordance with good governance, as well as with appropriate disclosures.

> *Refer to MBSB CG Report 2019 and Sustainability Report ("Our Integrity" section) for more information on our ethical business conduct*

**Roles and Responsibilities of the Chairman and PCEO**

The position of the Chairman and the Group PCEO are held by different individuals with clear division of responsibilities between the Chairman and Group PCEO to ensure balance of power and authority, and to promote check and balance.

The Chairman, Tan Sri Abdul Halim bin Ali focuses on board leadership whereas the Group PCEO, Datuk Seri Ahmad Zaini Othman focuses on the business, strategy, operations and organisational issues and implementing Board's decision. The roles of Chairman and Group PCEO are formally documented in the Board Charters.

**Company Secretary**

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

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

**Board Composition as at 28 April 2020**

The Board of MBSB consists of six (6) Directors:

- Four (4) Independent Non-Executive Directors
- One (1) Non–Independent Non-Executive Director
- One (1) Non-Independent Executive Director

At the Bank level, the Board of MBSB Bank consists of Nine (9) Directors:

- Six (6) Independent Non-Executive Directors
- Two (2) Non–Independent Non-Executive Directors
- One (1) Non-Independent Executive Director

There are two (2) common Directors in MBSB and MBSB Bank.

The respective Boards recognises the benefits of having a diverse Board to ensure that the Board can perform effectively by providing the necessary range of perspectives, experience and expertise. The Boards are committed to Board diversity and at the same time will ensure that all appointments to the respective Boards will be made based on merits while considering the Group's needs and circumstances, present size of the Board, suitability for the role, skills, experience, knowledge, experience and diversity.

The Board has adopted the Boardroom Diversity Policy which covers diversity in terms of professional experience, skills, knowledge, education and background, age, ethnicity, culture and gender for the Group. 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 Boards, through MBSB's Nominating and Remuneration Committee ("NRC") and MBSB Bank's Nominating and Remuneration Committee ("BNRC"), review the Board composition on a yearly basis or as and when required, to ensure the optimum size of the respective Boards which enable effective oversight and delegation of responsibilities to encourage the active participation of all Directors in Board or Board committees.

During the 2018 Annual Review on the Board's mix of skills and experience, diversity and other qualities, both the NRC and BNRC concluded that there was a need to appoint female Directors and Directors who possess Information Technology or Accounting/Auditing experiences to enhance the Board diversity. Both Committees also agreed that additional directors need to be appointed as a part of the succession planning of the Board.

During the year, the MBSB Board appointed Puan Zaidatul Mazwin binti Idrus as a Non-Independent Executive Director, which increased the composition of women Directors at MBSB to 40%, thus fulfilling the Practice 4.5 of the MCCG 2017 of having at least 30% women Directors on Board. The percentage was subsequently reduced to 33.33% in 2020 with the appointment of an additional Independent Non-Executive Director ("INED").

On 2 March 2020, MBSB appointed Encik Mohamad Abdul Halim bin Ahmad as an Independent Non-Executive Director. Encik Halim is an Associate Member of the Institute of Chartered Accountants England & Wales and also a member of the Malaysian Institute of Accountants.

At the Bank level, the Board appointed Encik Kamarulzaman bin Ahmad in October 2019 as an Independent Non-Executive Director of MBSB Bank. Encik Kamarulzaman brings with him 23 years of experience from the IT Industry.

> *Refer to the "Profile of the Board of Directors" section on page 12 – 27 for more information on the background of each Director*

A Board Skills Matrix was used to understand the capabilities and personal attributes of the existing Board members and is used as a reference when considering a new appointment of Directors. MBSB's NRC and the Bank's BNRC, have carried out fit and proper assessment on the candidates prior to recommendation to the respective Board's for approval.

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The Boards have adopted a Fit and Proper Policy and Procedure which outlined the following criteria for assessment of the suitability of the candidates, re-election of Directors, appointment or renewal of contract/performance for the Group PCEO, key senior management with "C" Suites position and the Company Secretary:

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

The "C" Suites position will cover the Deputy Chief Executive Officer, Chief Financial Officer, the Chief Compliance Officer, the Chief Internal Auditor, the Chief Risk Officer, the Chief Business Officer, the Chief Operating Officer, the Chief Technology Officer, the Chief Corporate Officer, and the Head of Global Markets.

The BNRC of the Bank is also responsible for reviewing the appointment, removal of the members of the Shariah Advisory Committee ("SAC") and determines their remuneration package.

**Board Evaluation**

Each of the Boards through NRC and the BNRC has conducted the annual assessment on the effectiveness of the Board, Board Committees, individual Directors and independence of Independent Directors.

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

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

The Board of MBSB Bank through the BNRC also conducted annual assessment on the performance and effectiveness of the SAC and every member of the SAC, in line with the Shariah Governance Framework issued on 20 September 2019.

In accordance with the Board Charter, the tenure of the independent directors shall not exceed a cumulative period of nine (9) years except under exceptional circumstances or as part of transitional arrangement towards full implementation of the succession plans subject to BNM approval.

> *Refer to MBSB CG Report 2019 for further details on activities carried by NRC and BNRC in 2019*

**Board Remuneration**

The Boards have established a Directors Remuneration Framework which is tailored to support the strategies and long-term vision of the Group as well as provide adequate motivational incentive for Directors to pursue long-term growth and success of the Group. The NRC and BNRC are responsible to review the Directors' remuneration on an annual basis prior to making its recommendations to the Boards for approval.

Both the NRC and the BNRC are responsible to ensure that the Directors' remuneration for MBSB and MBSB Bank are competitive and aligned with the industry benchmark. The level of remuneration for the Directors shall be determined and recommended by the NRC and the BNRC to the respective Boards 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 and similar sized financial institutions.

With the Companies Act, 2016, MCCG and MMLR in place, the duties and responsibilities of Board members have become more onerous and the expectations of the Board Committees have increased. The Board Committees of MBSB and MBSB Bank are also carrying the oversight responsibilities particularly in ensuring that the Group is in compliance with BNM guidelines. In order to ensure that the current remuneration structure commensurates with the respective Directors' responsibilities, the NRC requested for an external consultant to be appointed to review the remuneration structure of Directors for both MBSB and MBSB Bank.

In 2019, MBSB and MBSB Bank engaged the external consultant; KPMG Management & Risk Consulting Sdn Bhd, to review and address the remuneration gaps. The Boards of both MBSB and MBSB Bank took note of the recommendation by the consultants on the remuneration gap. The Board, in view of the economic situation which could be affected by the external factors, decided not to recommend any increase in the fee structure for the Directors.

The fees and benefits payable to Directors are approved by the shareholders in the general meeting in accordance with the Companies Act, 2016 and the Company's Constitution.

> *Refer to MBSB CG Report 2019 for details of the Directors' fees structure and benefits payable to NEDs of MBSB and MBSB Bank*

**Board Training**

The Boards have established the Directors Orientation and Training Guidelines which encourage Board members to attend continuous training to acquire new knowledge which will enable them to discharge their duties effectively.

The Company Secretaries have also arranged for the Directors of MBSB and MBSB Bank to attend the mandatory certification programs within the stipulated timeline; such as Mandatory Accreditation Programme ("MAP") – for listed entities only, Financial Institutions Directors Education Programme ("FIDE") and Islamic Finance for Board of Directors Programme ("ISRA").

> *Refer to MBSB CG Report 2019 for details of the list of programmes/conferences/seminars/dialogues attended by the Board of MBSB and MBSB Bank*

# Corporate Governance Overview Statement

## B. EFFECTIVE AUDIT AND RISK MANAGEMENT

**Audit Committees**

As at 31 December 2019, the MBSB's Audit Committee ("AC") comprises three (3) Independent Non-Executive Directors. The AC is chaired by Encik Lim Tian Huat who has extensive experience in accounting and finance. Encik Lim is a Council Member of Insolvency Practitioners Association of Malaysia, a Fellow of the Association of Chartered Certified Accountants ("ACCA"), a member of the Malaysian Institute of Accountants ("MIA") and the Malaysian Institute of Certified Public Accountants ("MICPA").

At the bank level, MBSB Bank's Audit Committee ("BAC") consists of two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director as at the end of 2019. MBSB Bank's BAC is chaired by Encik Aw Hong Boo, a Fellow of the Institute of Chartered Accountants in England & Wales ("ICAEW"), a member of MIA and MICPA.

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

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

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

The AC and BAC are satisfied with the performance of KPMG PLT ("KPMG"), based on the quality of service and sufficiency of resources which they provided to the Group including MBSB Bank. The AC and BAC are also satisfied with their review that the non-audit services provided by KPMG for financial year ended 31 December 2019 did not in any way impair their objectivity and independence as external auditors of the Group.

> *Refer to the Report of the Audit Committee 2019 on page 98-103 for more information on our audit committee and internal audit function*

**Risk Management and Internal Control Framework**

The Boards are ultimately responsible for risk oversight within the Group through MBSB's Risk Management Committee ("RMC") and Board Risk Management and Compliance Committee ("BRMCC") at MBSB Bank level (together, the "Risk Committees"). The Risk Committees are responsible to periodically review the Risk Management policies, risk exposure and limit whilst ensuring infrastructure and resources are in place.

The following Management-led Committees have been put in place to assist the Risk Committees in managing credit risk, operational risk, market risk, liquidity risk, Shariah risk, IT risk and other material risks:

Management-led Committees at MBSB

1. Management Committee ("MANCO")
2. Credit Assessment and Rehabilitation Committee ("CARAC")
3. Asset & Liability Committee ("ALCO")

Management-led Committees at MBSB Bank

1. Management Committee ("MANCO");
2. Management Investment and Credit Committee ("MICC")
3. Asset and Liability Committee ("ALCO")
4. Initial Alert Report Committee ("IAR")
5. Capital Management Committee ("CMC") – subset of ALCO
6. IT Steering Committee ("ITSC") *(disbanded)*

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

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

The ITSC was disbanded and its responsibilities have been taken over by the MANCO since March 2020. In March 2020, the Board Information Technology Oversight Committee ("BITC") was established to provide Board oversight over all IT related matters.

The CMC was established by MBSB Bank in September 2019. The roles and responsibilities of CMC is to monitor the capital adequacy of MBSB Bank, review the internal control measures, stress test results to ensure optimisation of the economic performance of MBSB Bank's assets and liabilities through managing the allocation of capital.

At the Bank level, the Designated Compliance and Risk Officer ("DCORO") at all business and support functions including bank branches has been established. The establishment of DCORO is to strengthen the compliance and risk management culture within Bank and to ensure compliance and operational risks are managed effectively within Bank. The DCORO together with all Business Unit and the Management will act as the first line of defense in executing compliance and operational risk initiatives at business and support functions. The formation of DCORO at business and support functions are in line with paragraph 8.3 of BNM Policy Document on Operational Risk. Further, in respect of managing compliance risk at business and support functions, the formation of DCORO is in line with Section 19 (4) of Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act ("AMLATFPUAA") 2016.

The Boards are of the view that the risk management and internal control framework in place during 2019 is sound and sufficient to ensure that all risks are well managed within the Group's risk appetite by providing adequate infrastructure and resources in place to support the risk management activities.

> *Refer to the Statement on Risk Management and Internal Control (SORMIC) on page 84-97 for more information on our risk management and internal control framework*

# Corporate Governance Overview Statement

**Shariah Governance**

As the second largest stand-alone Islamic bank in Malaysia, MBSB Bank strives to hold the banner of Islamic banking to the highest standards, and to ensure that its operations, business, affairs and activities comply, at all times, with Shariah.

MBSB Bank is governed by its Shariah Governance Framework established by the SAC and in line with the Shariah guidelines issued by BNM. The Shariah governance framework is supported by the following Shariah governance policies and procedures:

- Shariah Policies for Tawarruq Financial Products
- Shariah Secretariat and Advisory ("SSA") Department Procedures
- Shariah Risk Unit Procedures
- Shariah Requirements for Advertising, Marketing, Corporate Events and Business Tie-up
- Zakat Policy

> *Refer to MBSB Sustainability Report ("Our Integrity" section) for more information on the measures established and initiatives implemented in 2019*

## C. INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

**Communication with Stakeholders**

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

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

> *Refer to MBSB Sustainability Report ("Stakeholder Engagement" section) for more information on our stakeholder engagements in 2019 and the list of stakeholders' interests and concerns*

MBSB and MBSB Bank's website, which can be found at http://www.mbsb.com.my, and https://www.mbsbbank.com respectively, 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 MBSB's website and this helps to promote accessibility of information to MBSB's shareholders and all other market participants. All details of the corporate events carried out by the Group are also available on MBSB and MBSB Bank's website.

The Group has developed the Corporate Disclosure Policy which sets out the policies and procedures for the disclosure of all material information to be released to the public.

Stakeholders are welcomed and encouraged to drop us an email at enquiry@mbsbbank.com if they have any inquiries.

**Conduct of General Meeting**

The AGM of the Company is the principal forum for dialogue and interaction with the 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 support and provide further clarifications to the shareholders.

All four (4) MBSB Directors were present at the 49h AGM. During the 49th AGM, the Group PCEO presented the Group's financial performance to the shareholders before proceeding with the business of the meeting. The Group PCEO also shared the responses to questions submitted in advance of the AGM by the MSWG.

The Chairman invited the shareholders to raise questions pertaining to MBSB's financial statements, proposed resolutions and other items during the Questions and Answers session before putting a resolution to vote.

The notice and agenda of AGM together with Form of Proxy are given to shareholders at least 28 days before the AGM, which would allow shareholders sufficient time to prepare themselves to attend the AGM or to appoint proxy to attend and vote on their behalf. Each item of special business included in the notice of AGM will be accompanied by an explanatory statement on the effects of a proposed resolution.

The poll voting at the 49th AGM was conducted through electronic voting system.

## D. CONCLUSION

Moving forward, the Boards have identified sustainability as a focus area of the Group – to contribute to the environment and society through our operations and to better understand the risks and opportunities it presents to the Group, particularly on climate-related risks. The Boards will provide the appropriate guidance and oversight to the Management in driving the sustainability agenda of the Group.

This CG Overview Statement was approved by the Board of Directors of MBSB on 28 April 2020.

# Additional Compliance Statement

**Utilisation of Proceeds Raised from any Corporate Proposal**

During the financial year ended 31 December 2019, 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.

**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 KPMG PLT or its affiliates for the financial year ended 31 December 2019.

| | Group (RM'000) | Company (RM'000) |
|---|---|---|
| Fees paid/payable to KPMG | | |
| - Audit fees | 1,683 | 346 |
| Regulatory related | | |
| - Review of Statement on Risk Management and Internal Control | 10 | 10 |
| - Review of year-end submission to regulator and abridged financial statements | 50 | - |
| - Agreed upon procedures for validation programme required by Perbadanan Insurans Deposit Malaysia ("PIDM") | 150 | - |
| Non audit fees | | |
| - 9 months interim review | 285 | 85 |
| - Remuneration review of Directors and Group President and Chief Executive Officer | 130 | 130 |
| **Total** | 2,308 | 571 |

**Material Contracts with Related Parties**

Save as disclosed in Note 45 to the financial statements, there are no other material contracts subsisting at the end of the financial year or entered into since the end of the previous financial year by the Company and its subsidiaries which involves interests of the Directors, Group PCEO and major shareholders.

**Dividend Payment Policy**

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

**Employees Shares Option Scheme ("ESOS")**

The Shares Option granted to Group PCEO as at 31 December 2019 was as follows:-

| Name | Exercise Price (RM) | As at 1.1.2019 | Granted | Exercised | As at 31.12.2019 |
|---|---|---|---|---|---|
| Datuk Seri Ahmad Zaini Othman | 1.42 | 270,461 | - | - | 270,461 |

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

As at 31 December 2019, the actual percentage of total options granted to senior management of MBSB Group under ESOS was 22.18% of the total ESOS granted.

Details of the ESOS during the financial year 2019 are set out in Note 30 to the financial statements in this Annual Report.

# Statement on Risk Management and Internal Control

The Board of Directors of Malaysia Building Society Berhad ("the Board") is pleased to present the following Statement on Risk Management and Internal Control ("SORMIC") which outlines the key features of the Group's risk management and internal control system during the year under review.

This SORMIC is prepared in accordance with the Malaysian Code on Corporate Governance, Bursa Malaysia Securities Berhad Main Market Listing Requirement as well as the guidelines as set out in the "Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers" by Bursa Malaysia.

## BOARD RESPONSIBILITY

The Board is fully aware of its overall responsibility and recognises the importance of maintaining a sound risk management and internal control system, including review of the adequacy, integrity and effectiveness of the system so as to safeguard shareholders' investments and the Group's assets.

The Board oversees the risk management and internal controls of the Group and endeavours to ensure that principal risks are identified and appropriate internal controls and mitigation measures are being implemented. To ensure that the risk management of the Group is being adequately managed, the Risk Management Committee at MBSB and the Board Risk Management and Compliance Committee at MBSB Bank have been set up. The respective Board risk committees will be responsible for establishing the risk management and internal controls of each entity respectively.

Due to the limitations that are inherent in any system of risk management and internal control, this system can therefore only provide reasonable and not absolute assurance against the occurrence of any material misstatement, loss or fraud. Limitations inherent in the system include among others, human error and potential impact of external events beyond Management's control.

The Board remains committed towards operating a sound risk management and internal control system and, therefore, recognises that the system must continuously enhanced to support the Group's businesses and operations in a dynamic business environment.

The Board has ensured appropriate controls and processes such as policies, procedures and risk limits within the Group for identifying, measuring, monitoring, controlling and reporting of significant risks as well as emerging risks that may affect the achievement of business goals and objectives of the Group which had taken into consideration the changes in the business environment and regulatory requirements. The outcome of this process is closely monitored and reported to the Board as well as MBSB Bank's Board (collectively known as "the Boards") for deliberation. This ongoing process has been in place for the financial year end up to the date of approval of this Statement for inclusion in this Annual Report.

The Boards receive and review reports relating to the compliance status of the internal and regulatory requirements imposed on the respective Group entities. The Boards deliberate on any gaps and deficiencies reported and will direct the Management to take the necessary actions including remedial plans and follow-up actions to ensure that the gaps and deficiencies are addressed.

## MANAGEMENT RESPONSIBILITY

The Management is accountable to the Boards and is overall responsible for implementing the Group's policies and processes to identify, measure, monitor, control and report on risks as well as to ascertain the effectiveness of internal control systems and implement appropriate remedial action. The Management's roles include:

- Identifying and evaluating the risks relevant to the Group's business and monitors the achievement of its business objectives and strategies;

- Formulating and implementing relevant policies and procedures to manage risks and the conduct of business in accordance with the Group's strategic vision and overall risk appetite;

- Designing and implementing the risk management framework and internal control system, and monitoring its effectiveness;

- Implementing remedial actions to address compliance deficiencies as directed by the Boards; and

- Reporting to the Boards on any changes identified to the risks or emerging risk and the corrective actions taken.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board regards risk management as an integral part of business operations and confirms that there is an on-going process of identifying, measuring, monitoring, controlling 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 are consistent with the Group and industry practices.

## RISK MANAGEMENT FRAMEWORK

The Group has in place a risk management framework for identifying, measuring, monitoring, controlling and reporting the significant risks faced by the Group in achieving its business objectives and strategies. The risk management framework ensures that there is an effective ongoing process to identify, measure, monitor, control and report risks across the Group.

The key features of the risk management framework include:

**i. Governance and Organisation:**
A governance structure is fundamental to ensure effective and consistent implementation of the risk management framework. The Board is ultimately responsible for the Group's risk management activities and sets the strategic direction, risk appetite and relevant frameworks. The Boards are assisted by various Board Committees and control functions in ensuring that the risk management framework is maintained at the Group level. In this regard, the Risk Management Committee at MBSB and the Board Risk Management and Compliance Committee at MBSB Bank will ensure that the risk management framework is adequate at each entity respectively.

**ii. Internal Capital Adequacy Assessment Process ("ICAAP") of MBSB Bank:**
The ICAAP framework ensures that all material risks are identified, measured and reported and that adequate capital levels consistent with the risk profiles, including capital buffers, are maintained to support the current and projected demand for capital, under existing and stressed conditions. For non-measurable risks, qualitative approach is used and normally this type of risk is labelled as potentially material. The Group has to rely on the management experience and judgement if such risk could potentially threaten the survival of the Group.

**iii. Risk Appetite of MBSB Bank:**
Risk Appetite is defined as per the Bank's ICAAP Framework as the amount and types of risk that MBSB Bank is able and willing to accept in pursuit of its strategic and business objectives. The development of the risk appetite is integrated into the annual strategic planning process and is adaptable to the changing business and market conditions. As the risk appetite is dynamic, it is set based on the business and financial targets, while incorporating external factors such as

# Statement on Risk Management and Internal Control

macroeconomic and global outlook. The Board of MBSB Bank considers the actual and targeted risk profile proposed by senior management and business units when setting the risk appetite. The risk appetite is also being reviewed annually as part of strategic planning process or as and when required due to changing business and market conditions.

**iv. Risk Management Process for the Group:**

- **Business Planning:** Risk Management Division is an element of the business planning process, which encompasses setting frameworks for risk appetite, risk structure and new products or new business activities, for the relevant entities.

- **Risk Identification:** Risks are identified through the application of the Enterprise Risk Management (''ERM") Framework, 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 significant impacts to the Group.

  The usage of KRI 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.

  At MBSB Bank level, material risks are identified by determining events or scenarios that may have adverse impact. The details of the identification and assessment process are documented under MBSB Bank's ICAAP Framework.

- **Measure and Assess:** Risks are measured and aggregated using risk 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.

- **Manage and Control:** Controls and limits are used to manage risk exposures within the risk appetite. MBSB Bank's risk appetite is documented in its ICAAP Framework.

  Qualitative and quantitative controls including risk triggers and limits have been developed to oversee and manage significant risk exposures. In addition, risk mitigation techniques have been implemented in order to minimise existing or to prevent new or emerging risks from occurring.

  Controls and limits are monitored and reviewed in the face of evolving business needs, market conditions and regulatory changes. Corrective actions are also taken to mitigate risks.

- **Monitor and Report:** Risks on an individual as well as a portfolio basis are being monitored and reported to the respective management-led committees, Board Risk Committees, Board Audit Committees and the Boards for their review to ensure the risks remain within MBSB Bank's risk appetite.

  KRI and early warning signals are monitored to ensure that sufficient and timely actions can be put in place to mitigate any potential risk.

Qualitative and quantitative metrics are assigned based on the key risks for the Group. The state of compliance of these indicators is reported to the respective management-led committees, Board Risk Committees, Board Audit Committees and the Boards.

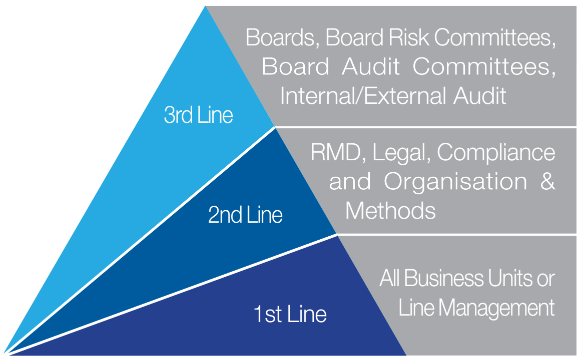
Operational risk incidents highlighted in incident/loss event reports are also reported to the respective management-led committees, Board Risk Committees and the Boards.

v. **<u>Risk Culture:</u>**

The Group embraces risk management as an integral part of its culture and decision-making processes. The Group's risk management philosophy is embodied in the Three Lines of Defense approach, whereby risks are managed at the point of a risk-taking activity. The Three Lines of Defense is reflected in the Group's ERM Framework. There is clear accountability of risk ownership across the Group. Guided by the said principle, the Group has launched a Risk Awareness Culture which comprises training, awareness campaigns and roadshows to promote a healthy risk culture. A strong risk culture minimises the Group's exposure to financial and non-financial risks including reputational impact, over time.

In addition, MBSB Bank has appointed Regional Compliance and Risk Officers ("RCRO") and Designated Compliance and Risk Officers ("DCORO") to cultivate proactive risk and compliance management and to establish a robust risk culture. The DCOROs are assigned at the respective branches, business and functional units across MBSB Bank to provide real time advisory on risk and compliance matters.

The implementation of the above is in line with the 'Three Lines of Defense' concept as practiced by the Group. There is clear accountability of risk ownership across the Group. The model is depicted in the diagram below:




## RISK GOVERNANCE STRUCTURE

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

**<u>Risk Management Committee</u>**

The Boards have respectively set up the MBSB's Risk Management Committee ("RMC") and MBSB Bank's Board Risk Management and Compliance Committee (''BRMCC"), (collectively, the "Board Risk Committees") as the drivers for review, monitor, mitigate and report significant risks and ensuring proper oversight of the management of risks which relate to the Group's processes and activities.

The Boards are ultimately responsible for risk oversight within the Group through the Board Risk Committees. The respective Board Risk Committees undertake the overall responsibility for risk oversight within the Group which includes reviewing the risk management policies, risk exposures 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.

# Statement on Risk Management and Internal Control

The primary objectives of the respective Board Risk Committees are to assist the Boards in fulfilling their fiduciary responsibilities, particularly in the management of controls and to provide a focal point for communication between risk managers, the Boards and Senior Management on matters in connection with reporting risks and controls as well as providing a forum for independent discussion.

The Board Risk Committees shall also undertake additional duties as may be deemed appropriate and necessary to assist the Boards.

**Management Led Committees**

Management-led Committees are set-up to assist the Board Risk Committees to manage credit risk, operational/ Information Technology risk, market risk, liquidity risk, Shariah risk, other material risks and compliance. The respective Management Led Committees set-up under the Group are as follows:

MBSB

The **Management Committee ("MANCO")**, which comprises members of Senior Management, acts as a platform for addressing all inherent risks to MBSB as well as the development of risk mitigation measures and strategies. The committee is also responsible for identifying, discussing and resolving any operational, financial and key management issues.

Other management-led committees namely ALCO and CARAC assist RMC and the Board in managing credit, operational, market and liquidity risks. Further details of the roles and responsibilities of these committees are as follows:

- **Asset Liability Committee ("ALCO")** serves as the primary oversight and decision-making body that provides strategic direction of the Group for the management of market risk, liquidity risk, profit rate and the Group's assets and liabilities. The committee also monitors capital adequacy through capital management of MBSB Bank.
- **Credit and Rehabilitation Assessment Committee ("CARAC")** deliberates and approves decisions on the remaining conventional corporate and retail financing, within the authority limit delegated by the Board. Where the proposals of the existing corporate and retail financing are not within CARAC's authority limit, it would recommend the proposals to the Board for approval. No new financings are being carried out at MBSB as all new financings are being undertaken by MBSB Bank.

MBSB Bank

At MBSB Bank level, the following Committees were established in managing credit, operational/Information Technology, market, liquidity and Shariah risks.

- **MANCO**, which comprises members of Senior Management, acts as a platform for addressing all inherent risks to MBSB Bank as well as the development of risk mitigation measures and strategies. In implementing the Risk Appetite Framework across MBSB Bank, MBSB Bank's MANCO ensures timely escalation of all events which may materially impact MBSB Bank'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.
- **Management Investment and Credit Committee ("MICC")** deliberates and approves corporate financing and retail financing/investment accounts, within the authority limit delegated by the Board of MBSB Bank. Where the prospective corporate financing and retail financing/investment accounts are not within MICC's authority limit, it would recommend the financing to the relevant Board Committees of MBSB Bank 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.[1]

- **Initial Alert Report Committee ("IAR")**, in attending to corporate and retail financing, reviews and evaluates the position of 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 financing portfolios and evaluates any significant trends detected.

- **IT Steering Committee ("ITSC")**[2], as the senior governance and policy-making body for IT-related matters at MBSB Bank, the committee ensures that MBSB Bank's planning for and investment in IT supports the organisation's strategic goals.

[1] The Capital Management Committee had been established on 23 August 2019 to report to ALCO on the capital management of MBSB Bank.
[2] The IT Steering Committee (ITSC) was disbanded and its responsibilities have been taken over by MANCO in March 2020.

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

**Risk Management Division**

The Risk Management Division ("RMD") 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, Board Risk Committees and the Boards.

RMD continues to provide advice and guidance on the credit, operational/Information Technology, 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. RMD is involved in all aspects of the Group's activities, including new product approvals, credit approval, credit and limit monitoring, outsourcing process and reviews of process workflows and policies.

To strengthen the IT risk management, a Chief Information Security Officer ("CISO") was appointed in May 2019 to oversee the IT risk management.

RMD also reviews the Group's compliance and risk limits and identifies emerging risk issues. During the financial year, RMD provided feedbacks in decision-making meetings as follows:

MBSB
- MANCO - Permanent Invitee
- CARAC - Permanent Invitee
- ALCO - Member

MBSB Bank
- MANCO - Permanent Invitee
- MICC - Permanent Invitee
- ALCO - Member
- IAR - Member
- ITSC - Member *(disbanded)*

RMD continues to report to the respective Management Committees, Board Risk Committees and the Boards 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 respective Management Led Committees, Board Risk Committees and the Boards for their review on a regular basis.

# Statement on Risk Management and Internal Control

## INFORMATION TECHNOLOGY RISK MANAGEMENT FRAMEWORK

The Group endeavours to adopt sound Information Technology Risk Management ("ITRM") practices based on industry best practices. MBSB's ITRM Framework is implemented with the following objectives:

- Articulate the overall vision, principles, philosophy, objectives and goals of IT Risk Management;
- Provide greater clarity of roles and responsibilities for IT Risk Management at all levels of staff;
- Define a policy for effective management and supervision of IT risk;
- Define a policy for IT risk identification, assessment, treatment and monitoring and reporting;
- Integrate and align the management of IT Risk with Operational Risk Management Framework, as well as other relevant guidelines, thus allowing well-informed decisions about the extent of the risk to be made;
- Promote IT risk awareness and culture and ensure that a commitment to IT Risk Management exists at all levels of staff;
- Foster an organisational climate where information security risk is considered within the context of the design of business process, enterprise system architecture and system development life cycle;
- Ensure that adequate security controls are implemented to protect information assets (confidentiality, integrity, availability); and
- Reduce exposure to unexpected losses caused by IT Risk.

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

With regards to Financial Institutions' management of technology risk, BNM had issued a policy document on Risk Management in Technology ("RMiT") on 18 July 2019 with one of the requirements is to designate a board-level committee which shall responsible for supporting the board in providing oversight over technology-related matters.

Following this, the Board Information Technology Oversight Committee ("BITC") was established in March 2020 as a formal committee reporting to the Board.

The BITC is the senior governance and policy making body for IT at MBSB Bank. Its role is to ensure that the organisation's planning for and investment in IT supports the Bank's strategic goals and to provide an oversight on the IT Risk Management Framework.

## SHARIAH GOVERNANCE FRAMEWORK

The Group's Shariah Governance Framework sets out the expectations of the Shariah governance structures, processes and arrangements of all businesses of Islamic business transactions. MBSB Bank's Shariah Governance Framework reflects the responsibility of the MBSB Bank's Board, Management, Shariah Advisory Committee and Shariah Control functions, namely, Shariah Advisory and Research, Shariah Risk, Shariah Review and Shariah

Audit, as well as Business Units to ensure management of Shariah Non-Compliance risks. The end-to-end Shariah compliant governance mechanism is executed through four lines of defense that cater for both pre-execution and post-execution. The four lines of defense are as follow:

1) Management and Business Unit
2) Shariah Advisory and Research
3) Shariah Risk
4) Shariah Audit and Shariah Review

**Risk of Shariah Non-Compliance**

Shariah non-compliance risk is the risk of failure to comply with the Shariah rules and principles as determined by the Shariah Committee/Advisor or the relevant bodies, such as the Shariah Advisory Council of both BNM and Securities Commission.

MBSB Bank has implemented the following controls in addressing this risk:

- On-going identification, assessment, monitoring and controlling of Shariah non-compliance risk as set out in the Shariah Governance Framework and other guidelines to ensure operations and business activities are in compliance with Shariah requirements

- Use of Operational Risk Management tools such as Loss Event Reporting ("LER"), RCSA and KRI for monitoring of Shariah non-compliance risk exposures and effectiveness of controls

- New Islamic products or services introduced as well as variations are subject to a vigorous product evaluation process which assesses potential Shariah non-compliance risk as well as the readiness to introduce the said products or services

- Periodic review of the potential risks and issues relating to the Islamic concepts/contracts of Islamic products and services to ensure the potential issues are managed and the products and services are Shariah compliant

- Sponsoring staff to acquire Shariah certification to enhance knowledge and upgrade skills on Shariah matters

## INTERNAL AUDIT DIVISION

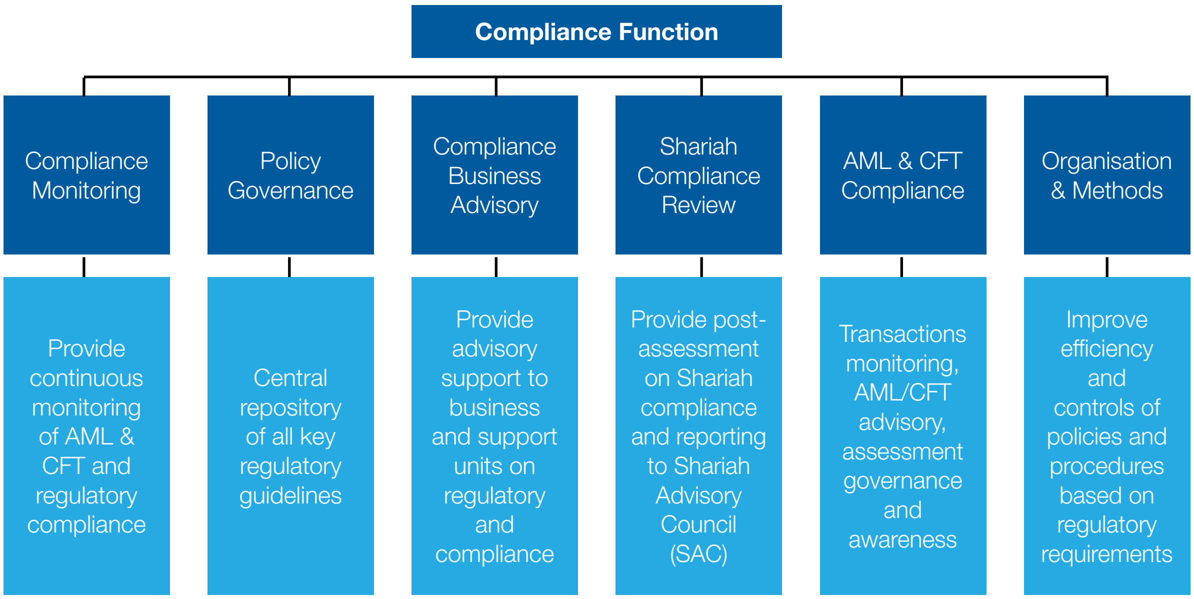
The Internal Audit Division, reporting to the Audit Committee ("AC") and MBSB Bank's Board Audit Committee ("BAC"), performs systematic and regular reviews of key processes via audit of divisions/departments and branches in an effort to assess the effectiveness, adequacy and integrity of internal controls including compliance to the necessary policies and guidelines. Areas of improvement and proposed recommendations are highlighted to Senior Management and the AC and the BAC with periodic follow-up reviews on actions taken.

The Internal Audit Division assists the AC and BAC in discharging the Committee's duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of MBSB and MBSB Bank's system of internal controls.

# Statement on Risk Management and Internal Control

## COMPLIANCE FUNCTION

**Structure of Compliance Function**




Compliance management is the collective responsibility of the Boards, Senior Management and every employee of the Group. Led by the Boards and Senior Management, the Group adopts a compliance culture which reflects a corporate culture of ethical standards and integrity. The Group aspires to uphold high standards in carrying on its business and at all times observes both the spirit and letter of the laws and regulations. To achieve this, it is important that compliance is managed in a systematic and effective manner by a dedicated compliance function.

The compliance function of the Group is driven by Compliance Division, whereby its main function is to identify and manage compliance at Group level through consistent compliance programmes carried out across the Group. To maintain its independence, Compliance Division reports functionally to the Boards and administratively to the President and Group Chief Executive Officer. Compliance issues and matters in respect of governance, processes, controls as well as systems are deliberated at Senior Management Committees, Board Risk Committees and Boards.

The effectiveness of compliance function within the Group is further supported and augmented by:

- **RCRO**, who is appointed to continuously reinforce compliance culture and manage compliance risk at regional level under the second line of defence. Effectively, performing thematic review, monitoring of compliance, coordinating compliance and risk activities as well as strengthening compliance culture at branches become the primary roles of RCRO, amongst others.

- **DCORO**, who represents the first line of defence and acts as the key interface with Compliance Division in delivering and promoting compliance awareness, implementing and monitor control measures, executing compliance framework as well as facilitating the understanding of compliance requirements at the respective business and support units.

The Group's commitment towards compliance is embodied in its Compliance Charter as follows:

- Preserve the integrity and reputation of MBSB Bank by way of adherence with applicable laws, regulations, ethical standards in all markets and jurisdictions in which it operates.

- Improve the corporate image of MBSB Bank as a respectable organisation with regards to compliance, including Shariah rulings and Anti-Money Laundering (AML) & Counter Financing Terrorism (CFT) risks.

- Fully cooperate with the relevant local and international competent authorities and law enforcement agencies in combating money laundering and counter financing of terrorism.

The Interconnectedness of compliance responsibilities within the Group is depicted in the diagram below:

**INTERNAL AUDIT**
Responsible for providing independent assurance to the Board and senior management on the overall quality and effectiveness of compliance risk management controls executed by Compliance Division, business and support units.

**COMPLIANCE**
Compliance Division manages the compliance risk by assessing and monitoring the adequacy and effectiveness of the governance, processes and systems carried out by respective business and support units.

**BUSINESS & SUPPORT UNITS**
Business units and support units, primarily responsible for managing compliance risk inherent in the day-to-day activities, processes and systems for which they are accountable for.

# Statement on Risk Management and Internal Control

In light of the above, Compliance Division undertakes the following key activities and functions on a continuous basis:

- **Regulatory and Shariah Compliance Reviews** – The regulatory and Shariah compliance reviews are developed based on mandatory requirements by the respective Policy Documents issued by BNM. To this end, Compliance Thematic and Shariah Compliance reviews are periodically conducted to monitor the Group's activities are in compliance with the applicable regulations and Shariah rulings, respectively. RCRO is responsible to perform the thematic review on branches. Reports on the outcomes of the compliance reviews are tabled to senior management committee, Board risk committee and Boards, including SAC for Shariah compliance. Subsequently, the rectification progress of the highlighted issues is also tracked and monitored until full resolution.

- **Gap Analysis Exercise** – Gap analysis is performed on new and revised regulatory requirements against the internal policies and procedures to identify the difference between the current and regulatory practices. Action plans are formulated by the affected process owners and tracked for implementation and closure by Compliance Division.

- **AML/CFT Compliance Programme** – Compliance Division undertakes several initiatives to ensure continuous compliance with BNM's Guidelines on AML, CFT and Targeted Financial Sanctions for Financial Institutions (AML/CFT and TFS for FIs) covering, inter-alia, conduct transactions monitoring via AML/CFT screening database and providing training and awareness to strengthen the staff understanding and knowledge on relevant requirements. Additionally, Compliance Division also provides advisory support on AML/CFT matters and perform risk assessment on the Group's business initiatives affecting new and revised products, services and delivery channels.

- **Advisory Support and risk assessment** – Provide compliance advisory support to business and support units to ensure regulatory risk is mitigated. Additionally, Compliance Division is also involved in the Project Steering Committees ("PSC") and Project Working Groups ("PWG") for all the newly implemented banking products and services. Compliance risk assessment is conducted on all the Group's projects and initiatives as part of the strategies to comply with the regulatory requirements.

- **Compliance Healthcheck** – Healthcheck is developed to serve as a self-assessment tool for branches as well as selected business and support units to test the key compliance controls including Shariah on a periodic basis, and allow prompt addressing of self-identified gaps. The areas in the exercise include regulatory requirements such as AML/CFT, Personal Data Protection Act, Foreign Account Tax Compliance Act ("FATCA"), Common Reporting Standard ("CRS") and key pertinent Shariah contracts. The latest addition to the Healthcheck list for branches is on the Foreign Exchange Administration ("FEA") Rules. To ensure objectivity and improve the effectiveness of the exercise, the outcomes of completed healthchecks are validated by Compliance Division on a periodic basis.

- **Compliance Training** – Compliance training activities are structured to focus on ensuring continuous adherence to relevant regulatory requirements issued by the regulatory bodies. The training plan also aims to update the Group's staff with latest and new development in term of regulatory requirements such as AML/CFT, Personal Data Protection Act, FATCA, CRS, FEA Rules and key pertinent Shariah contracts. In addition to this, instances of non-compliance highlighted during the thematic and external regulatory reviews are also shared with the staff to prevent recurrence of the same.

- **Compliance Awareness** – Another platform which strengthens the staff learning exposure in the Group is via the various compliance awareness mediums i.e. monthly compliance bulletin and bi-monthly posters. These mediums of communication are intended to reinforce the level of comprehension on key compliance areas including Shariah, while demonstrating MBSB Bank's continued commitment to alleviate compliance culture amongst the staff.

- **Review of Internal Policies and Procedures** – Compliance Division participates in the Group's review of new and revised policies and procedures via a working group. This role is instrumental in ensuring all regulatory requirements, including AML/CFT areas are embedded and harmonised into the internal policies and procedures to ensure compliance gaps are adequately addressed.

- **Liaison Officer with Regulators** – Compliance Division is the key contact point for the Group in its engagement and liaison with the regulators and Law Enforcement Agencies. The liaison roles include coordinating the information and communication from or to these authority bodies in a systematic manner.

- **Integrity Governance Unit (IGU)** – The Board had on 19 September 2019 approved the establishment of the IGU for the Bank, in which the CCO helms the role of the interim Head. The main purpose of IGU is to ensure honest work culture amongst the Bank's employees including members of Senior Management and Board, founded upon strong morals and ethics to combat bribery, corruption and abuse of power. IGU is tasked to carry out the core functions such as emplacement of governance, integrity enhancement, complaints management, detection as well as verification.

In addition to the above key activities and functions, Compliance Division also sends out an Annual Statement of Compliance Certification to all business and support units and branches. It is a self-certification exercise whereby the business units, support units and branches certify their state of compliance with regulatory requirements, Shariah requirements as well as policies and procedures surrounding the key business activities and operations at their respective business and support units.

## OTHER KEY ELEMENTS OF INTERNAL CONTROL

The other key elements of the procedures established by the Group in ensuring effective internal control include:

- The Finance Division drives the financial management for the Group and maintains and enhances financial control. A detailed integrated budgeting process has been established, resulting in ownership of business objectives, plans and the expected financial outcome based on the approved budget. The budget and business plan as well as strategic initiatives, taking into account the risk appetite, are deliberated by Management and the MBSB Bank Board on an annual basis. The MBSB Bank Board also reviews the operational and financial performance of MBSB Bank. Quarterly management reports are presented to the MBSB Bank's Board providing information on the financial performance and risk exposure of MBSB Bank to enable MBSB Bank Board to effectively oversee the MBSB Bank's overall performance objectives, key initiatives, financial plans and annual budget.

# Statement on Risk Management and Internal Control

- A corporate governance structure is in place with transparent and consistent lines of responsibility.

  In addition to the Board Risk Committees, the Board Audit Committees, the Boards are also supported by other established Board Committees in the execution of its responsibilities namely MBSB Bank's Board Investment and Credit Committee ("BICC"), MBSB Bank's Board Nominating & Remuneration Committee (BNRC) and MBSB Nominating & Remuneration Committee (NRC) the details of which are set out in the Corporate Governance Report. Each committee has their respective terms of reference.

- An Approving Authority Manual with appropriate empowerment and authority limits has been approved by the respective Boards including authorisation limits at various levels of Management.

- The Risk Appetite Statement (incorporated under the ICAAP Framework) which articulates the nature, type and level of risk that MBSB Bank is willing to assume, is reviewed and approved by the Board of MBSB Bank on an annual basis. Compliance to the risk appetite is monitored on a periodic basis and any non-compliance to the Risk Appetite Statement is reported to the Board of MBSB Bank.

- The 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 MBSB Bank. 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 MBSB Bank to resume critical operations within the required timeframes and minimises the cost of damages and interruptions due to disasters.

- Policies, procedures and processes governing the Group businesses and operations are documented and are made available to employees through the Group 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 via intranet. 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.

- 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.

- The Group has established guidelines on the Code of Ethics and Conduct for Directors and Employees which sets out the responsibilities of the Group's directors and employees in observing the principles and upholding the corresponding conduct to achieve professionalism and ethics in the conduct of the Group's business and professional activities.

- Complaint Handling & Whistle Blowing Policy is in place to address the avenues for individuals to report suspected breaches of law or regulations or other improprieties. All employees are accorded the opportunity to report via the Whistle Blowing mechanism with the assurance that it shall be dealt with confidentiality and that the complainant's identity is protected.

- The Fraud & Corruption Control Policies & Procedures has been disseminated to all employees in order to ensure the Policy requirements are implemented and expected to be strictly followed. The Fraud & Corruption Control Policies & Procedures are implemented to provide broad principles, strategy and policies in relation to fraud in order to promote high standards of integrity. The policy establishes programmes and controls, including a periodic review of the Fraud controls are in place as well as highlight the roles and responsibilities at every level for preventing and responding to fraud. A fraud risk assessment is in place in order to identify and address vulnerabilities to internal and external fraud.

- The 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 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 Group has strengthened the internal controls and IT risk management framework and implemented the cyber security project which focuses on strengthening the security perimeter to protect the critical systems, enhancing the protection of internet facing applications, proactive monitoring by the Security Operations Center to ensure the visibility of the cyber security threats and protecting the Group's data from unauthorised information disclosure.

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

## REVIEW OF SORMIC BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in the Audit and Assurance Practice Guide 3 ("AAPG 3"), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the Integrated Annual Report of the Group for the financial year ended 31 December 2019.

Based on the review conducted, the external auditors have reported to the Board that nothing has come to their attention that would cause them to believe that this statement:

a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
b) is factually inaccurate.

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and the Management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Integrated Annual Report will, in fact, remedy the problems.

## CONCLUSION

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 and MBSB Board believes that the system of risk management and internal control is sound and sufficient to safeguard shareholders' investments and the Group's assets.

The statement was approved by the Board of Directors on 28 April 2020.

# Report of the Audit Committee

## PURPOSE OF AUDIT COMMITTEE

The establishment of the MBSB's Audit Committee ("AC") and MBSB Bank's Board Audit Committee ("BAC") is to assist the MBSB's Board of Directors ("MBSB Board") and MBSB Bank's Board of Directors (MBSB Bank Board) in:

- Providing independent oversight on the financial reporting, risk management and internal control systems and ensure appropriate method and procedure are in place to provide the level of assurance required by each Board.

- Serving as an independent party to objectively review the financial information of the Group which is presented by the Management to each Board and shareholders.

## COMPOSITION OF THE AC AND BAC

Paragraph 15.09(1)(c) of the Bursa Malaysia's MMLR requires that at least one (1) member of each Committee must be a member of MIA or equivalent expertise or experience in the field of finance.

**MBSB - AC**
The Chairman of the AC, Encik Lim Tian Huat, is a Fellow of ACCA, member of the MIA and MICPA.

In 2019, a total of 16 AC meetings were held. The composition of the AC members and attendance of each member at the Committee meetings held during the financial year are as follows:

| Committee Member | Attendance |
|---|---|
| Encik Lim Tian Huat (Chairman)<br>*(Senior Independent Non-Executive Director)* | 16/16 |
| Ir Moslim Othman<br>*(Independent Non-Executive Director)* | 16/16 |
| Puan Lynette Yeow Su-Yin<br>*(Independent Non-Executive Director)* | 16/16 |

*Encik Mohamad Abdul Halim Ahmad has been appointed as AC Committee Member on 2 March 2020 to replace Ir Moslim Othman who retired on same date.*

**MBSB Bank - BAC**
Encik Aw Hong Boo as the Chairman of the BAC is a Fellow of ICAEW, member of MIA and MICPA.

In 2019, a total of 15 BAC meetings were held. The composition of the Bank BAC members and attendance of each member at the Committee meetings held during the financial year are as follows:

| Committee Member | Attendance |
|---|---|
| Encik Aw Hong Boo (Chairman)<br>*(Senior Independent Non-Executive Director)* | 15/15 |
| Tunku Alina Raja Muhd Alias<br>*(Non-Independent Non-Executive Director)* | 15/15 |
| Dr Loh Leong Hua<br>*(Independent Non-Executive Director)* | 15/15 |

The respective NRC and BNRC ensured that the AC and BAC comprised of Independent Non-Executive Directors who have the appropriate level of expertise and experience with strong understanding of the Bank's business to maintain an independent and effective AC & BAC.

The Chairman of the AC and BAC report to the respective Boards on matters deliberated during the AC and BAC meetings respectively. Minutes of each meeting are also distributed to each member of the respective Board.

The AC and BAC meetings were also attended by the Group PCEO, Group Chief Risk Officer, Group Chief Internal Auditor ("GCIA") together with the Audit Department Heads while the attendance of other Senior Management staff is by invitation depending on the matters being deliberated.

## AUTHORITY OF THE AC AND BAC

The AC and BAC, in discharging their duties, have explicit authority to investigate any matter within their terms of reference. The AC and BAC also have full access to and co-operation from the Management which include discretion to invite the Group PCEO, Management Team, GCIA and external auditors to attend their meetings. The AC and BAC shall have the rights to obtain the necessary resources to enable them in performing their duties and providing independent professional advice if necessary, with any expenses related thereto to be borne by the Group.

## ROLES AND RESPONSIBILITIES OF THE AC AND BAC

The main roles and responsibilities of the AC and BAC include, but are not limited to the following:

- To fulfil and comply with the relevant regulatory and statutory requirements of Audit Committee;
- To fulfil the independent oversight function in relation to the adequacy and integrity of internal controls and financial reporting, risk management and compliance with internal policies, procedures and external applicable rules and regulations;
- Reinforce the independence and objectivity of the Internal Audit Division ("IAD");
- 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
- Undertake additional duties as may be deemed appropriate and necessary to assist the respective Boards.

– *The full Terms of Reference of the AC can be downloaded at https://www.mbsb.com.my/TOR_AC.pdf*

## ACTIVITIES OF THE AC AND BAC IN 2019

The summary of the activities of the AC and BAC in the discharge of its duties and responsibilities for the financial year ended 31 December 2019 included the following:

**Financial Reporting**

a) Assisted each Board in ensuring the accounting treatment, financial reporting and disclosures in the Annual Audited Financial Statement of MBSB and MBSB Bank for the financial year ended 31 December 2019, are in compliance with:

   - Provisions of the Companies Act, 2016;
   - Bursa Malaysia's MMLR;
   - Applicable approved accounting standards in Malaysia and adoption of new accounting standards as well as the accounting treatments used in the financial statements; and
   - Other legal and regulatory requirements.

b) Reviewed the quarterly unaudited financial results of the Group and discussed with the Management before recommending to the respective Boards for approval prior to submission to relevant regulatory authorities.

c) Reviewed the MFRS 9 validation by the external auditors for each Board's approval.

d) Reviewed the Expected Credit Losses ("ECL") refined model for each Board's approval.

e) Reviewed the proposed Interim Dividend for each Board's approval.

f) Reviewed the write off proposal for each Board's approval.

g) Reviewed the Basel II Pillar 3 disclosure on half yearly basis.

The Group Chief Financial Officer is responsible for financial management of the Group, including MBSB Bank.

# Report of the Audit Committee

**External Audit**

a) Reviewed with the external auditors on:

- Their audit planning memorandum for the year ended 31 December 2019 comprising their audit plan, audit approach, 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; and
- Updates of new developments on the Malaysian Financial Reporting Standards issued by the Malaysian Accounting Standards Board.

b) In compliance with the MMLR, met the representatives of the external auditors twice a year for discussion without the presence of the Management, to discuss any issues of concern of the external auditors arising from their audits, including the level of cooperation provided by the Company's employees to the external auditors. Other officers of the Group are also invited to the AC and BAC meetings during the deliberation of matters related to them as and when necessary.

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 written confirmation regarding their independence and the measures used to control the quality of their work.

d) Evaluated the performance and effectiveness of the external auditors as follows:

- Performance, quality of services and sufficiency of resources provided by the external auditor;
- Communication and interaction with the external auditor; and
- Auditor independence and objectivity.

e) Made recommendations to each Board of Directors on their audit fees, non-audit fees and for their reappointment to hold office until the conclusion of the next annual general meeting.

**Internal Audit**

The AC and BAC activities related to Internal Audit are further deliberated in the "Statement on Internal Audit Function" and the "Internal Audit Division Activities in 2019" section in this Report.

**Annual Report**

Reviewed and recommended the Report of the Audit Committee for each Board's approval for inclusion in the Annual Report for the FY2019.

**Related Party Transaction**

Reviewed related party transactions entered into by MBSB and its subsidiaries that may arise within the Group, covering the nature and amount of the transactions so as to ensure that related party transactions are undertaken on an arm's length basis, on normal commercial terms and on terms that are not more favourable to the related parties than those generally available to the non-related parties.

**Directors' Training**

During the year, the Committee members have attended the relevant training programmes, conferences and seminars as disclosed in MBSB CG Report 2019.

## STATEMENT ON INTERNAL AUDIT FUNCTION FOR THE AC AND BAC

The internal audit function is performed in-house and undertaken by the Group's IAD. The IAD reports administratively to the Group PCEO and directly to the AC and BAC as an independent unit that provides independent and reasonable assurance that the system of internal controls continues to operate satisfactorily and effectively. The audits cover the review of the adequacy of risk management, operational controls, compliance with established procedures, guidelines and statutory requirements, quality of assets, application systems and management efficiency, amongst others.

To maintain objectivity and independence, the appointment, remuneration, performance appraisal, transfer and dismissal of the GCIA are to be decided by the AC and BAC. IAD personnel do not have any authority or responsibility for the activities they audit. They are required to report to the GCIA any situation in which a conflict of interest or bias is present or may reasonably be inferred. Assignments are allocated so that potential and actual conflicts and bias are avoided.

The IAD is adopting the relevant requirements on internal audit:

a) BNM/RH/GL (013-4) Guidelines on Internal Audit Function of Licensed Institutions
The core functions of an IAD according to the above Guidelines are:

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

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

c) The IAD is also guided by the Internal Audit Charter, Internal Audit Manual and the Committee's Terms of Reference. The Internal Audit Manual documents audit processes, methodology, roles, duties and responsibilities of internal auditors.

The function of internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Group's operations. It evaluates whether:

- Resources are effectively and economically utilised;
- Internal controls are adequate, efficient and effective;
- The objectives of the Group are being achieved efficiently and effectively; and
- The established policies and procedures are being followed.

The GCIA is also invited to attend various level of Committee's meeting at both MBSB and MBSB Bank including Management Committee, Risk Management Committee (RMC), Board Risk Management and Compliance Committee (BRMCC) and IT Steering Committee as permanent invitee and observer in a consultative capacity to provide independent feedback on internal control and governance aspects.

The IAD provides consulting or advisory services in the evaluation of risk exposures of new systems, business products and services to assess the controls that should be in place to mitigate the risks identified prior to implementation.

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

The IAD provides periodic reports to the 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. The IAD also carries out investigative audits where there are improper, illegal and dishonest acts reported. This enables the Committee to execute its oversight function by forming an opinion on the adequacy of measures undertaken by the Management.

The AC and BAC also reviewed and assessed the performance of the GCIA, including the fit and proper assessment to ensure that the GCIA satisfies the fitness and propriety criteria set out in the Fit and Proper Requirements Policies & Procedures on a continuous basis.

## THE INTERNAL AUDIT DIVISION ACTIVITIES IN 2019

As a result of the transfer of all Islamic assets and liabilities to MBSB Bank, the IAD' activities were mainly presented at MBSB Bank's BAC as follows:

a) Presented its risk-based audit plan, audit budget and scope of work to the BAC 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 the Group's internal controls system and taking into consideration the business strategic plans, regulatory requirements and Management's inputs.

b) Revised the audit plan during the half-year review of the plan to take into account changes in business environment, audit priorities and ad-hoc requests from regulators or Management.

# Report of the Audit Committee

c) Conducted scheduled audits, ad-hoc audit assignments and investigations which the audit reports were tabled to the BAC highlighting the audit findings, issues and recommendations for improvement. The scheduled audits were of the following:

- Corporate credit and retail audit covering the credit underwriting, pre and post disbursement, financing activities, credit operations, security documentation and corporate and retail credit recovery.

- Treasury audit, covering front office, middle office and back office, with the aim to ensure that Treasury operations are in-line with the objectives and strategies of the asset and liabilities management and the approved policies and procedures as well as to ensure proper authentication and verification of treasury transactions.

- Operational audits covering Asset Management, Warehouse Outsourcing Services, Human Resource Department, Compliance Division, Strategic Planning and Group Risk with the primary objective to ensure effective operations processes are discharged.

- Information System 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, business continuity and disaster recovery, physical security, maintenance and its contingency planning are in accordance with MBSB Bank's policies and procedures.

- Independent reviews on relevant guidelines issued by BNM and statistical reporting audit based on BNM's regulatory requirements with the primary objective to ensure the reporting requirements, data accuracy, governance, check and controls are in line with BNM's requirement.

- Audit of selected IT projects undertaken by MBSB Bank to ensure proper internal control and compliance with the project governance.

- Audit at selected MBSB Bank's branches as per approved audit plan.

- Audit of selected support business divisions and departments to ensure proper internal control and compliance with the respective policies and procedures.

- Audit of Related Party Transaction and Connected Parties to ensure no conflict of interest arose when approving the financing facilities as well as appointing the vendors.

- Shariah Audit is embedded in the respective audit assignments in ensuring compliance with Shariah rules and principles as prescribed by SAC, policies and procedures and relevant BNM's guidelines.

  For 2019, the IAD has conducted the thematic Shariah audit review on selected areas namely Commodity Trading Supplier, Fees and Charges, Zakat Operations Utilisation with the objective to ensure that adequate controls were in place to ascertain conformity with Shariah principles.

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

  With regards to Shariah audit, findings and recommendations were also tabled to the Shariah Advisory Committee ("SAC") and BAC for notification and deliberation.

d) Conducted investigations into activities or matters as instructed by the BAC and the Management. The outcomes from the investigations were tabled to the BAC and MBSB Bank Board.

e) Monitored, followed-up and validated the completion of management action plans to address audit findings on unresolved audit findings and reported the status to the BAC.

f) Reviewed and revised internal audit manual & new audit rating methodology to ensure the appropriateness of the methodology adopted.

g) Conducted annual reviews of the Business Contingency Plan and Disaster Recovery Plan testing to ensure compliance with the BNM's Guidelines on Business Continuity Management.

h) Provided quarterly reports on the status of internal audit activities to the BAC.

i) Provided advisory services to review the operational guidelines and manuals to ensure pertinent controls embedded are consistent with the changes in businesses and operations.

j) Witnessed the tender opening process for procurement of services or assets to ensure the activities in the tendering process are conducted in a fair, transparent and consistent manner.

k) Independent Credit Review ("ICR") with the primary objective to ensure the effectiveness of the regular review and/or appraisal of the effectiveness of the overall credit risk management arrangements within the Group was set up in August 2018.

Undertake the External Quality Assurance Review conducted by the PWC Malaysia, and the action plan taken by IAD to address the recommendations raised therein. IAD was assigned a "Generally in Conformance" rating by PWC Malaysia with respect to its adherence to the IIA's International Standards for the Professional Practice of Internal Auditing.

Conducted scheduled audits, in which the audit reports were tabled to the AC highlighting the audit findings, issues and recommendations for improvement. The scheduled audits were of the following:

- 3-Year Audit Plan (2019-2021);
- 2018 Report of the Board Audit Committee;
- Internal Audit Division 4th Quarter Report as at 31 December 2018;
- Internal Audit Division 1st Quarter Report as at 31 March 2019;
- Internal Audit Report of Asset Management Unit;
- Follow-Up Audit of Asset Management Unit;
- Internal Audit Report of Corporate Recovery, Collection & Recovery Department; and
- Internal Audit Report on Status of Unresolved Audit Issues to the Audit Committee.

Based on the audit conducted, IAD received full cooperation from Management and staff. IAD had full and unrestricted access to all personnel, information and documents relevant to the internal audit work. The Management has responded positively and taken steps to address the audit observations and process improvements raised during the audit.

IAD also works with the external auditors to resolve any control issues raised by them to ensure that significant issues are duly acted upon by Management.

IAD continues with its initiatives to optimise the use of technology and increase the usage of data analytics tools to achieve audit effectiveness and efficiency.

The upskilling of internal auditors through continuous learning and development remains a key focus. This is achieved through structured and formalised training programmes on themed subject matters. IAD staff had acquired technical competence and training that demonstrated by various certifications.

The cost incurred for the internal audit function in respect of the FY2019 amounted to RM4,223,654.00.

## INTERNAL AUDIT REPORTS

In 2019, the IAD has completed 91 assignments (22 BNM's requirements and 69 internal audit assignments) and consultancy services covering the audits of all key operations and investigations carried out. All findings by the IAD are tracked and followed-up until closure.

## CONCLUSION

In the annual assessment of the effectiveness of Board Committees for FY2019, each Board was satisfied that the AC and BAC members have discharged their function, duties and responsibilities in accordance with the TOR to provide independent oversight of the Group's internal and external audit functions, internal controls and ensuring checks and balances within the Group.

# Financial Statements

# Statement of Directors' Responsibility

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

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

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

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

# Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

**Principal activities**

The Company is principally engaged in investment holding. The Company had ceased providing new financing, but continues to manage its remaining conventional loans and advances.

The principal activities of the subsidiaries are described in Note 13. There have been no significant changes in the nature of the principal activities of the subsidiaries during the financial year.

**Results**

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Profit for the year | 716,900 | 162,233 |

**Reserves and provisions**

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statements of profit or loss and other 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 dividend paid by the Company since 31 December 2018 was as follows:

| | RM'000 |
|---|---|
| In respect of the financial year ended 31 December 2018: | |
| - single-tier final dividend of 5.0 sen net per ordinary share on 6,389,101,298 ordinary shares approved on 8 April 2019, paid on 23 July 2019 | 319,455 |

On 6 May 2020, the Company announced the proposed single-tier final dividend of 3.0 sen net per ordinary share in respect of the financial year ended 31 December 2019. Based on the number of shares in the issue of 6,713,401,615 ordinary shares as at 31 December 2019, the dividend payable would be RM201,402,049.

# Directors' Report

**Dividends (cont'd.)**

The financial statements for the current financial year do not reflect the proposed final dividend. Such dividend, if approved by the shareholders in the forthcoming Annual General Meeting, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2020.

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

**Directors**

The Directors of the Company in office since the beginning of the current financial year to the date of this report are:

**The Company**
Tan Sri Abdul Halim bin Ali
Encik Lim Tian Huat
Ir. Moslim bin Othman
Puan Lynette Yeow Su-Yin
Puan Zaidatul Marwin Idrus (Appointed on 14 October 2019)
Encik Mohamad Abdul Halim bin Ahmad (Appointed on 2 March 2020)

**MBSB Bank Berhad**
Datuk Azrulnizam bin Abdul Aziz
Datuk Johar bin Che Mat
Tan Sri Abdul Halim bin Ali
Encik Sazaliza bin Zainuddin
Encik Aw Hong Boo
Puan Lynette Yeow Su-Yin
Tunku Alina binti Raja Muhd Alias
Dr. Loh Leong Hua
Encik Kamarulzaman Ahmad (Appointed on 1 October 2019)
Encik Arul Sothy Mylvaganam (Appointed on 5 May 2020)

**Other subsidiaries of the Company**
Encik Tang Yow Sai
Puan Azlina Mohd Rashad
Encik Asrul Hazli Salleh
Encik Hazim Dato' Yahya
Cik Yam Kwai Ying Sharon
Puan Thiru Selvi a/p Supramaniam (Appointed on 1 October 2019)
Encik Edmund Lee Kwing Mun (Appointed on 16 December 2019)
Puan Norhayati binti Azit (Resigned on 1 October 2019)

**Directors' benefits**

Since the end of the previous financial year, no Director, other than disclosed in Note 45 (c) to the financial statements 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 39 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.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by mean of the acquisition of shares in or debentures of the Company or any of its related corporations during the financial year, except for the share options granted to executives of the Company pursuant to the Malaysia Building Society Berhad Employee Share Options Scheme.

**Indemnity and Takaful cost**

The Group Directors and Officers are covered by Directors' and Officers' Liability Takaful. The total insurance coverage amounts to RM50,000,000 and the annual insurance premium that is payable amounts to RM122,970.

**Directors' interests**

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

| | **Number of ordinary shares** | | | |
|---|---|---|---|---|
| **Name of Director** | **1.1.2019** | **Acquired** | **Sold** | **31.12.2019** |
| *Direct interest:* | | | | |
| *Ordinary shares of the Company* | | | | |
| Tan Sri Abdul Halim bin Ali | 250,366 | 15,647 | - | 266,013 |

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.

# Directors' Report

**Issue of shares and debentures**

During the financial year, the Company increased its issued and paid-up ordinary share capital by RM259,440,254 from RM6,682,101,791 to RM6,941,542,045 as follows:

| | Number of new ordinary shares Units '000 | RM '000 | Issue/ exercise price |
|---|---|---|---|
| Issuance of new shares for cash pursuant to: | | | |
| Dividend Reinvestment Plan | 324,300 | 259,440 | 0.80 |

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

On 20 December 2019, a subsidiary of the Group issued a new Tier-2 Sukuk Wakalah with nominal value of RM1,300,000,000.

Save as disclosed above, there were no other new shares or debentures issued during the financial year.

**Options granted over unissued shares**

There were no options granted during the financial year by the Company to take up any unissued shares of the Company. No shares have been issued during the financial year by virtue of the exercise of any options to take up unissued shares of the Company. At the end of the financial year, there were no unissued shares of the Company under options, other than the options granted under the Employee Share Options Scheme ("ESOS").

**Employee Share Option Scheme**

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 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.

**Employee Share Option Scheme (cont'd.)**

The salient features and other terms of the ESOS are disclosed in Note 30(b) to the financial statements.

Details of the options to subscribe for ordinary shares of the Company pursuant to the ESOS as at 31 December 2019 are as follows:

| Grant date | Expiry date | Exercise price (RM) | Number of options |
|---|---|---|---|
| 11.09.2010 | 11.08.2020 | 1.00* | 1,179,561 |
| 09.03.2012 | 11.08.2020 | 1.02* | 780,784 |
| 15.11.2012 | 11.08.2020 | 1.42* | 8,439,265 |
| 09.03.2014 | 11.08.2020 | 1.52* | 13,795,866 |
| | | | 24,195,476 |

* 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.

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 as at the year-end. The names of option holders who were granted options to subscribe for 276,643 or more ordinary shares as at 31 December 2019 are as follows:

| | Revised Exercise Price | Number of Share Options | | | |
|---|---|---|---|---|---|
| Name | RM | 1.1.2019 | Granted | Exercised | 31.12.2019 |
| Tang Yow Sai | 1.00 | 367,229 | - | - | 367,229 |
| | 1.42 | 175,799 | - | - | 175,799 |
| Azlina Binti Mohd Rashad | 1.42 | 480,978 | - | - | 480,978 |
| Zainnurain Bin Othman | 1.42 | 422,178 | - | - | 422,178 |
| Salim Yazan Bin Gulzar Mohamed | 1.52 | 418,577 | - | - | 418,577 |
| Asrul Hazli Bin Salleh | 1.02 | 147,979 | - | - | 147,979 |
| | 1.42 | 260,180 | - | - | 260,180 |
| Koh Ai Hoon | 1.00 | 268,111 | - | - | 268,111 |
| | 1.42 | 109,014 | - | - | 109,014 |
| Tamin Bin Jafeeri | 1.42 | 321,298 | - | - | 321,298 |
| Adzahar Bin Abdul Khalid | 1.00 | 222,516 | - | - | 222,516 |
| | 1.42 | 66,232 | - | - | 66,232 |

# Directors' Report

**Employee Share Option Scheme (cont'd.)**

| Name | Revised Exercise Price RM | Number of Share Options 1.1.2019 | Granted | Exercised | 31.12.2019 |
|---|---|---|---|---|---|
| Nor Azam Bin M. Taib | 1.02 | 108,991 | - | - | 108,991 |
| | 1.42 | 173,480 | - | - | 173,480 |
| Azlina Binti Mohd Abdul Karim @ Alias | 1.52 | 276,643 | - | - | 276,643 |
| Md Azhar Bin Md Ali | 1.52 | 276,643 | - | - | 276,643 |
| Hasliza Binti Ismail | 1.52 | 276,643 | - | - | 276,643 |

**Statement of Corporate Governance**

The Board of Directors ("the Board") of the Company is pleased to report the application by the Company of the principles contained in the Malaysia Code on Corporate Governance ("the Code") and the extent of compliance with the best practices of the Code. The Board has endeavoured to apply the principles and comply with the relevant best practices of corporate governance as set out in the Code. The Company is also required to comply with Bank Negara Malaysia ("BNM")'s policy document on Corporate Governance ("BNM/RH/PD 029-9") issued on 3 August 2016.

**Business review for 2019**

The Group registered a profit before taxation and zakat of RM897 million for 2019 as compared to profit before taxation and zakat of RM854 million in prior year. Gross loans, financing and advances for the Group as at 31 December 2019 stood at RM35,864 million (2018: RM35,173 million) whilst total deposits from customers and placements of banks and other financial institutions stood at RM35,894 million (2018: RM32,788 million).

The Group continued its focus to grow corporate financing during the year, including expanding its trade finance portfolio and strengthening its capital with the issuance of Tier-2 Sukuk Wakalah in December 2019.

The Group was also active in the treasury segment, achieving a higher treasury income and increased investment in securities during the year.

Overall, the Group's financial results for 2019 is satisfactory.

**Outlook for 2020**

The Islamic industry in Malaysia has advanced rapidly over the years, with a significant proportion of loans and financing in the country being Islamic financing. Islamic banks offer various competitive and innovative products, complementing solutions offered by conventional banks. While the growth is seen as significant in the industry, it is also important that Islamic financing delivers a positive and sustainable impact on the economy and community.

The Group will continue its focus to expand the corporate business, to reach the desired corporate retail-portfolio mix. The Group is looking forward to expanding its products and services which include trade finance, wealth management and mobile banking to cater for various segments of our customers and depositors.

For the year 2020, the Group's performance are expected to be impacted by the novel coronavirus ("COVID-19") outbreak in the country.

**Other statutory information**

(a) Before the statements of financial position and statements of profit or loss and other comprehensive income of the Group and of the Company were made out, the Directors took reasonable steps:

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

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

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

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

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

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

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

# Directors' Report

**Other statutory information (cont'd.)**

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

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

(ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year other than those arising in the normal course of business of the Group and of the Company as disclosed in Note 48 to the financial statements.

(f) In the opinion of the Directors:

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

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

**Significant events during the financial year and subsequent events after the financial year end**

Significant events during the financial year are disclosed in Note 55 to the financial statements. Subsequent events after the financial year end are disclosed in Note 56 to the financial statements.

**Auditors**

The auditors, KPMG PLT, have expressed their willingness to continue in office. The auditors' remunerations are disclosed in Note 37 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 6 May 2020.

Tan Sri Abdul Halim bin Ali
Chairman

Lim Tian Huat
Director

Kuala Lumpur, Malaysia

# Statement by Directors

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

We, Tan Sri Abdul Halim bin Ali and Lim Tian Huat, 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 122 to 322 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and of the financial performance and cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 6 May 2020.

Tan Sri Abdul Halim bin Ali
Chairman

Lim Tian Huat
Director

Kuala Lumpur, Malaysia

# Statutory Declaration

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

I, Tang Yow Sai, being the officer primarily responsible for the financial management of Malaysia Building Society Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 122 to 322 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 6 May 2020

Tang Yow Sai

Before me,

# Independent Auditors' Report

To the Members of Malaysia Building Society Berhad
(197001000172/9417-K) (Incorporated in Malaysia)

**Report on the Audit of 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 2019 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 122 to 322.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

**Basis for Opinion**

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

**Independence and Other Ethical Responsibilities**

We are independent of the 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.

**Key Audit Matters (cont'd.)**

| **Valuation of loans, financing and advances** | |
|---|---|
| Refer to Note 2(o) – Significant accounting policy: Impairment of financial assets, Note 4(i) – Expected credit losses/ Allowance for impairment of loans, financing and advances and other receivables and Note 9 – Loans, financing and advances to the financial statements. | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| As at 31 December 2019, loans, financing and advances represent 66.96% and 15.70% of the total assets of the Group and of the Company respectively.<br><br>MFRS 9, *Financial Instruments* requires the Group and the Company to recognise Expected Credit Losses ("ECL") on their loans, financing and advances and off-balance sheet positions.<br><br>The measurement of ECL requires the application of significant judgment and increased complexity which include the identification of on-balance sheet and off-balance sheet credit exposures with significant deterioration in credit quality, assumptions used in the ECL models (for exposures assessed individually or collectively) such as the expected future cash flows and forward-looking macroeconomic factors.<br><br>In order to maintain model performance and relevance to reflect the credit exposure of the business, the ECL models are subjected to model refinements/enhancements. Significant judgement and assumptions are applied in the refinement/enhancement exercise. | Our audit procedures performed over this area included, among others:<br><br>• Assessed the design and tested the operating effectiveness of management controls implemented in identifying potentially impaired loans, assessing for evidence of significant increase in credit risk for the purposes of staging classification and reviewing the adequacy of ECL allowances.<br><br>• Tested the completeness and accuracy of data from underlying systems that are used for the computation of ECL.<br><br>• Assessed the reasonableness of the criteria for identifying a significant increase in credit risk and considered if those criteria are consistent with credit risk management practices.<br><br>• Tested the accuracy of the classification of aging buckets for retail loans, financing and advances that was part of the criteria for account staging.<br><br>• For a selected number of samples of performing Wholesale and Commercial Banking loans, financing and advances, performed credit reviews to ascertain the credit grading and classification of account staging.<br><br>• For a selected number of samples of individually impaired customers, obtained the Group and Company's assessment of their recoverability of these exposures and challenged whether the assumptions and key inputs used in the individual impairment assessments were appropriate.<br><br>• Assessed whether the financial statement disclosures are adequate and appropriately reflect the Group's and the Company's exposures to credit risk. |

# Independent Auditors' Report
# To the Members of Malaysia Building Society Berhad

(197001000172/9417-K) (Incorporated in Malaysia)

**Key Audit Matters (cont'd.)**

| **Valuation of loans, financing and advances (cont'd.)** | |
|---|---|
| **The key audit matter** | **How the matter was addressed in our audit** |
| | Our financial risk management specialists assisted in performing audit procedures, which included, among others:<br><br>• Assessed and validated ECL model refinements for reasonableness and consistency of methodology and compliance with MFRS 9.<br><br>• Challenged the reasonableness of the key assumptions and variables used by management in the ECL allowance computations for key portfolios and considered whether they were representative of current economic circumstances.<br><br>• Performed re-computation of ECL on key portfolios using the attributes embedded in the ECL models developed by the Group and the Company. |

| **Goodwill** | |
|---|---|
| Refer to Note 2(e)(i) – Significant accounting policy: Intangible assets - Goodwill, Note 4(ii) – Goodwill from acquisition of MBSB Bank Berhad and Note 19 – Goodwill to the financial statements. | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| As at 31 December 2019, the goodwill recognised in the financial statements of the Group was RM148.0 million (as disclosed in Note 19), arising from the acquisition of a subsidiary, MBSB Bank Berhad in February 2018. | Our audit procedures performed over this area included, amongst others:<br><br>• Assessed the sensitivity analysis performed by the Group and Company on the key inputs to the impairment model, to understand the impact that reasonable alternative assumptions would have on the overall carrying amounts.<br><br>• Assessed the adequacy of the disclosures of the key assumptions used by the Group in determining the recoverable amount of the CGUs. |

**Key Audit Matters (cont'd.)**

| **Goodwill (cont'd.)** | |
|---|---|
| **The key audit matter** | **How the matter was addressed in our audit** |
| The Group has performed an impairment assessment on goodwill. Goodwill impairment testing of cash-generating units ("CGUs") relies on estimates of value-in-use ("VIU") based on estimated future cash flows. The carrying value of goodwill may be materially misstated due to management judgement involved in the estimation of value-in-use, as well as assumptions factored in the estimation of future cash flows that are affected by future, market and economic conditions. | Our corporate finance specialists assisted in performing audit procedures, which included among others:<br><br>• Assessed the reasonableness of the key assumptions and methodology used by the Group and Company in performing the impairment assessment.<br><br>• Assessed the basis of preparing the cash flow projections and appropriateness of key assumptions such as growth rate and discount rate applied by taking into consideration historical evidence and comparing the assumption used against internal information as well as external economic and market data. |

**Information Other than the Financial Statements and Auditors' Report Thereon**

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditors' report, 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.

When we read the remaining parts of the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Company and take appropriate actions in accordance with approved standards on auditing in Malaysia and International Standards on Auditing.

# Independent Auditors' Report
# To the Members of Malaysia Building Society Berhad

(197001000172/9417-K) (Incorporated in Malaysia)

**Responsibilities of the Directors for the Financial Statements**

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

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company 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 internal control of the Group and of the Company.

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or the Company 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 and the Company to cease to continue as a going concern.

**Auditors' Responsibilities for the Audit of the Financial Statements (cont'd.)**

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express on 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 auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiary of which we have not have not acted as auditor is disclosed in Note 13 to the financial statements.

**Other Matters**

1. The financial statements of the Group and of the Company as at and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 19 April 2019.

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

**KPMG PLT**
(LLP0010081-LCA & AF 0758)
Chartered Accountants
Petaling Jaya

**Ow Peng Li**
Approval Number: 02666/09/2021 J
Chartered Accountant

6 May 2020

# Statements of Financial Position

As at 31 December 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| | Note | RM'000 | RM'000 | RM'000 | RM'000 |
| **Assets** | | | | | |
| Cash and short-term funds | 5(a) | **2,034,889** | 3,411,986 | **189,526** | 155,077 |
| Deposits and placements with other financial institutions | 5(b) | **873,515** | 931,087 | **-** | 154,347 |
| Derivative financial assets | 6 | **4,239** | 67 | **-** | - |
| Financial investments at fair value through other comprehensive income ("FVOCI") | 7 | **10,694,644** | 5,097,105 | **-** | - |
| Financial investments at amortised cost | 8 | **494,705** | 20,350 | **-** | - |
| Loans, financing and advances | 9 | **33,953,822** | 33,133,119 | **1,146,505** | 1,326,502 |
| Trade receivables | 10 | **1** | 561 | **-** | - |
| Other receivables | 11 | **188,342** | 243,047 | **104,906** | 148,672 |
| Statutory deposits with Bank Negara Malaysia | 12 | **1,090,000** | 1,053,000 | **-** | - |
| Investments in subsidiaries | 13 | **-** | - | **5,290,328** | 4,756,328 |
| Investments in joint venture | 14 | **-** | - | **-** | - |
| Inventories | 15 | **102,175** | 102,432 | **-** | - |
| Property and equipment | 16 | **313,964** | 297,567 | **24,367** | 24,831 |
| Right-of-use assets | 17(a) | **8,784** | - | **-** | - |
| Intangible assets | 18 | **167,209** | 293,513 | **-** | - |
| Goodwill | 19 | **148,031** | - | **-** | - |
| Investment properties | 20 | **820** | 820 | **-** | - |
| Land use rights | 21 | **521** | 5,262 | **-** | - |
| Deferred tax assets | 22 | **28,218** | 34,318 | **9,585** | 15,687 |
| Tax recoverable | | **605,778** | 801,278 | **539,621** | 710,610 |
| **Total assets** | | **50,709,657** | 45,425,512 | **7,304,838** | 7,292,054 |

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

# Statements of Financial Position

As at 31 December 2019 (cont'd.)

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019<br>RM'000 | 2018<br>RM'000 | 2019<br>RM'000 | 2018<br>RM'000 |
| **Liabilities and shareholders' equity** | | | | | |
| Deposits from customers | 23 | **25,271,951** | 24,209,449 | **-** | - |
| Deposits and placements of banks and other financial institutions | 24 | **10,621,769** | 8,578,851 | **-** | - |
| Derivative financial liabilities | 6 | **1** | 2 | **-** | - |
| Trade payables | 25 | **22** | 225 | **-** | - |
| Other payables | 26 | **642,278** | 650,767 | **154,484** | 239,669 |
| Lease liabilities | 17(b) | **8,919** | - | **-** | - |
| Recourse obligation on financing sold | 27 | **2,481,251** | 2,135,518 | **-** | - |
| Sukuk - MBSB Structured Covered ("SC") Murabahah | 28 | **1,664,973** | 1,968,075 | **-** | - |
| Sukuk Wakalah | 29 | **1,293,075** | - | **-** | - |
| Deferred tax liabilities | 22 | **126,607** | 60,120 | **-** | - |
| Provision for taxation and zakat | | **11,940** | 36,901 | **538** | 4,787 |
| **Total liabilities** | | **42,122,786** | 37,639,908 | **155,022** | 244,456 |
| Ordinary share capital | 30 | **6,941,542** | 6,682,102 | **6,941,542** | 6,682,102 |
| Reserves | 31 | **160,837** | 16,873 | **5,843** | 6,261 |
| Retained earnings | | **1,484,492** | 1,086,629 | **202,431** | 359,235 |
| **Total equity** | | **8,586,871** | 7,785,604 | **7,149,816** | 7,047,598 |
| **Total liabilities and shareholders' equity** | | **50,709,657** | 45,425,512 | **7,304,838** | 7,292,054 |
| **Total Islamic banking assets*** | | **48,090,927** | 42,291,495 | **-** | - |
| **Commitments and contingencies** | 47 | **5,098,853** | 6,116,722 | **29,749** | 38,242 |

* The disclosure is in accordance with the requirements of Bank Negara Malaysia's Guideline on Financial Reporting for Islamic Banking Institutions dated 27 September 2019.

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

# Statements of Profit Or Loss and Other Comprehensive Income

For the Year Ended 31 December 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| | Note | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 32 | **3,012,003** | 2,862,724 | **113,233** | 812,513 |
| Income derived from investment of general investment deposits and Islamic capital funds | 33 | **2,774,929** | 2,604,687 | **-** | 609,344 |
| Income attributable to depositors | | **(1,428,408)** | (1,272,930) | **-** | (304,799) |
| Income attributable to securitisation | | **(93,821)** | (97,665) | **-** | (24,843) |
| Income attributable to sukuk | | **(95,312)** | (107,299) | **-** | (69,836) |
| Net income from Islamic operations | | **1,157,388** | 1,126,793 | **-** | 209,866 |
| Interest income | 34 | **151,955** | 216,796 | **105,107** | 174,530 |
| Interest expense | 35 | **(20)** | (21,832) | **(20)** | (21,832) |
| Net interest income | | **151,935** | 194,964 | **105,087** | 152,698 |
| Operating income | | **1,309,323** | 1,321,757 | **105,087** | 362,564 |
| Net other income | 36 | **103,394** | 53,963 | **37,517** | 45,593 |
| Net income | | **1,412,717** | 1,375,720 | **142,604** | 408,157 |
| Other operating expenses | 37 | **(400,831)** | (406,280) | **(42,172)** | (120,917) |
| Operating profit | | **1,011,886** | 969,440 | **100,432** | 287,240 |
| Net (allowance)/writeback for impairment on loans, financing and advances and other financial assets | 40 | **(114,457)** | (115,867) | **39,190** | (11,338) |
| Profit before taxation and zakat | | **897,429** | 853,573 | **139,622** | 275,902 |
| Taxation | 41 | **(181,067)** | (198,173) | **22,540** | (75,507) |
| Zakat | | **899** | (13,000) | **71** | - |
| Profit from continuing operations | | **717,261** | 642,400 | **162,233** | 200,395 |
| Loss from discontinued operation | | **(361)** | - | **-** | - |
| Profit for the year | | **716,900** | 642,400 | **162,233** | 200,395 |
| Other comprehensive income, net of tax: | | | | | |
| Movement in fair value reserve, which may be reclassified subsequently to profit or loss | | **144,382** | 17,268 | **-** | 6,656 |
| **Total comprehensive income for the year, net of tax** | | **861,282** | 659,668 | **162,233** | 207,051 |
| Earnings per share (sen) | | | | | |
| Basic | 42 (a) | **10.97** | 10.32 | | |
| Diluted | 42 (b) | **10.97** | 10.32 | | |

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

# Statements of Changes in Equity

For the Year Ended 31 December 2019

| Group | Share Capital RM'000 | ← Non-distributable Share Option Reserve RM'000 | → Fair Value Reserves RM'000 | Distributable Retained Earnings RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **At 1 January 2019** | **6,682,102** | **6,261** | **10,612** | **1,086,629** | **7,785,604** |
| Profit for the year | **-** | **-** | **-** | **716,900** | **716,900** |
| Other comprehensive income for the year | **-** | **-** | **144,382** | **-** | **144,382** |
| Dividends (Note 43) | **-** | **-** | **-** | **(319,455)** | **(319,455)** |
| Issuance of shares pursuant to Dividend Reinvestment Plan (Note 43) | **259,440** | **-** | **-** | **-** | **259,440** |
| Transfer of share option reserve to retained profits upon expiry of share options | **-** | **(418)** | **-** | **418** | **-** |
| **At 31 December 2019** | **6,941,542** | **5,843** | **154,994** | **1,484,492** | **8,586,871** |
| | | | | | |
| **At 1 January 2018** | 6,172,051 | 6,261 | (6,656) | 751,726 | 6,923,382 |
| Profit for the year | - | - | - | 642,400 | 642,400 |
| Other comprehensive income for the year | - | - | 17,268 | - | 17,268 |
| Dividends (Note 43) | - | - | - | (307,497) | (307,497) |
| Issuance of shares pursuant to Dividend Reinvestment Plan (Note 43) | 243,952 | - | - | - | 243,952 |
| Issuance of shares for acquisition of a subsidiary | 266,099 | - | - | - | 266,099 |
| **At 31 December 2018** | 6,682,102 | 6,261 | 10,612 | 1,086,629 | 7,785,604 |

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

# Statements of Changes in Equity

For the Year Ended 31 December 2019 (cont'd.)

| | ← Non-distributable | → | | Distributable | |
|---|---|---|---|---|---|
| **Company** | **Share Capital RM'000** | **Share Option Reserve RM'000** | **Fair Value Reserves RM'000** | **Retained Earnings RM'000** | **Total RM'000** |
| **At 1 January 2019** | **6,682,102** | **6,261** | **-** | **359,235** | **7,047,598** |
| Profit for the year | **-** | **-** | **-** | **162,233** | **162,233** |
| Dividends (Note 43) | **-** | **-** | **-** | **(319,455)** | **(319,455)** |
| Issuance of shares pursuant to Dividend Reinvestment Plan (Note 43) | **259,440** | **-** | **-** | **-** | **259,440** |
| Transfer of share option reserve to retained profits upon expiry of share options | **-** | **(418)** | **-** | **418** | **-** |
| **At 31 December 2019** | **6,941,542** | **5,843** | **-** | **202,431** | **7,149,816** |
| | | | | | |
| **At 1 January 2018** | 6,172,051 | 6,261 | (6,656) | 466,337 | 6,637,993 |
| Profit for the year | - | - | - | 200,395 | 200,395 |
| Other comprehensive income for the year | - | - | 6,656 | - | 6,656 |
| Dividends (Note 43) | - | - | - | (307,497) | (307,497) |
| Issuance of shares pursuant to Dividend Reinvestment Plan (Note 43) | 243,952 | - | - | - | 243,952 |
| Issuance of shares for acquisition of a subsidiary | 266,099 | - | - | - | 266,099 |
| **At 31 December 2018** | 6,682,102 | 6,261 | - | 359,235 | 7,047,598 |

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

# Statements of Cash Flows

## For the Year Ended 31 December 2019

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Cash flows from operating activities** | | | | |
| Profit before taxation | **897,429** | 853,573 | **139,622** | 275,902 |
| Adjustments for: | | | | |
| Depreciation of property and equipment | **8,605** | 8,615 | **464** | 1,804 |
| Amortisation: | | | | |
| - land use rights | **91** | 161 | **-** | - |
| - intangible assets | **24,210** | 11,383 | **-** | 1,731 |
| Depreciation of right-of-use asset | **8,814** | - | **-** | - |
| Loss/(gain) on disposal of property and equipment and land use rights | **3,938** | (316) | **-** | (318) |
| Loss on liquidation of subsidiaries | **-** | - | **-** | 2,710 |
| Gain on disposal of financial assets held-for-sale | **-** | (2,384) | **-** | (2,384) |
| Net (gain)/loss on sale of financial investments at FVOCI | **(58,592)** | 33 | **-** | - |
| Net gain on sale of financial investments at FVTPL | **(1,424)** | - | **-** | - |
| (Gain)/loss on disposal of foreclosed properties | **(7,109)** | 401 | **(7,109)** | 401 |
| Allowance/(write back) for impairment of: | | | | |
| - loans, financing and advances | **78,487** | 174,919 | **(64,986)** | 19,167 |
| - other receivables | **65,538** | 45,944 | **14,482** | 50,077 |
| - financing commitments, financial guarantees | **(29,732)** | (102,205) | **(1,028)** | (83,994) |
| - other payables | **-** | 1,570 | **-** | 1,570 |
| - investments at amortised cost | **146** | 6 | **-** | - |
| - investments at FVOCI | **18** | - | **-** | - |
| - asset held-for-sale | **-** | (4,359) | **-** | 11,708 |
| - financing to subsidiaries | **-** | - | **-** | 4,588 |
| - amount due from subsidiaries | **-** | - | **12,342** | 8,222 |
| - trade receivables | **-** | (8) | **-** | - |
| Profit adjustments: | | | | |
| - loans, financing and advances | **-** | (92,836) | **-** | (9,898) |
| - financial investments | **(347,897)** | (36,524) | **-** | - |
| - Sukuk - MBSB SC Murabahah | **93,096** | 107,299 | **-** | 69,836 |
| - Sukuk Wakalah | **2,216** | - | **-** | - |
| - recourse obligation on financing sold | **93,821** | 97,665 | **-** | 24,843 |
| - Sukuk Commodity Murabahah | **-** | - | **-** | (27,348) |
| Operating profit before working capital changes | **831,655** | 1,062,937 | **93,787** | 348,617 |

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

# Statements of Cash Flows

For the Year Ended 31 December 2019 (cont'd.)

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Working capital changes: | | | | |
| Decrease/(increase) in deposits with financial institutions with maturity of more than one month | **57,572** | (183,684) | **154,347** | (157,792) |
| Increase in statutory deposits with Bank Negara Malaysia | **(37,000)** | (1,028,826) | **-** | - |
| (Increase)/decrease in loans, financing and advances | **(931,515)** | (267,709) | **244,983** | 495,291 |
| Decrease in financial assets held-for-sale | **-** | 38,409 | **-** | 38,409 |
| Decrease in inventories | **257** | 810 | **-** | 900 |
| (Increase)/decrease in derivative assets | **(4,172)** | 226 | **-** | - |
| Decrease/(increase) in trade receivables | **560** | (258) | **-** | - |
| Decrease/(increase) in other receivables | **10,020** | (198,716) | **5,830** | 374,310 |
| Increase/(decrease) in deposits from customers, banks and other financial institutions | **3,105,420** | (1,920,965) | **-** | (790,770) |
| (Decrease)/increase in trade payables | **(203)** | 15 | **-** | - |
| (Decrease)/increase in derivative liabilities | **(1)** | 2 | **-** | - |
| Increase/(decrease) in other payables | **20,804** | 239,891 | **(84,157)** | (871,692) |
| Cash generated from/(used in) operations | **3,053,397** | (2,257,868) | **414,790** | (562,727) |
| Tax paid | **(293,370)** | (325,688) | **(106,024)** | (178,476) |
| Tax refunded | **306,474** | - | **305,655** | - |
| Zakat paid | **(8,158)** | (7,826) | **(4,178)** | (2,982) |
| Net cash generated from/(used in) operating activities | **3,058,343** | (2,591,382) | **610,243** | (744,185) |

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

# Statements of Cash Flows

For the Year Ended 31 December 2019 (cont'd.)

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Cash flows from investing activities** | | | | |
| Increase in investment in subsidiaries | **-** | - | **(534,000)** | - |
| Acquisition of MBSB Bank Berhad | **-** | 181,076 | **-** | (6,666,078) |
| Proceeds from financial assets held-for-sale | **-** | 40,793 | **-** | 40,793 |
| Purchase of property and equipment | **(60,968)** | (136,942) | **-** | (1,736) |
| Purchase of intangible assets | **(33,080)** | (101,473) | **-** | (11,509) |
| Proceeds from disposal of foreclosed properties | **18,221** | - | **18,221** | - |
| Proceeds from disposal of property and equipment and land use rights | **36,678** | 2,097 | **-** | 516 |
| Profit income from financial investment | **347,897** | 36,524 | **-** | - |
| Net purchase of financial investment | **(5,822,066)** | (1,146,047) | **-** | (38,118) |
| Proceeds from sale of financial investments at amortised cost | **-** | 31,168 | **-** | - |
| Net cash used in investing activities | **(5,513,318)** | (1,092,804) | **(515,779)** | (6,676,132) |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Issuance/(repayment) of recourse obligation on financing sold | **345,231** | (102,649) | **-** | (88,002) |
| Profit expense paid on recourse obligation on financing sold | **(93,319)** | (97,665) | **-** | - |
| Repayment of Sukuk - MBSB SC Murabahah | **(301,859)** | (318,694) | **-** | (41,693) |
| Profit expense paid on Sukuk - MBSB SC Murabahah | **(94,339)** | (108,407) | **-** | - |
| Payment of lease liabilities | **(8,679)** | - | **-** | - |
| Issuance of Sukuk Wakalah | **1,290,859** | - | **-** | - |
| Dividends paid on ordinary shares | **(319,455)** | (307,497) | **(319,455)** | (307,497) |
| Net proceeds from issuance of ordinary shares | **259,440** | 243,952 | **259,440** | 243,952 |
| Net cash generated from/(used in) financing activities | **1,077,879** | (690,960) | **(60,015)** | (193,240) |

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

# Statements of Cash Flows

For the Year Ended 31 December 2019 (cont'd.)

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Net (decrease)/increase in cash and cash equivalents** | **(1,377,097)** | (4,375,146) | **34,449** | (7,613,557) |
| **Cash and cash equivalents at 1 January** | **3,411,986** | 7,787,132 | **155,077** | 7,768,634 |
| **Cash and cash equivalents at 31 December** | **2,034,889** | 3,411,986 | **189,526** | 155,077 |
| **Cash and cash equivalents is represented by:** | | | | |
| Cash and short-term funds (Note 5(a)) | **2,034,889** | 3,411,986 | **189,526** | 155,077 |

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

An analysis of changes in liabilities arising from financing activities for the financial year is as follows:

| Group | Recourse obligation on financing sold RM'000 | Sukuk-MBSB SC Murabahah RM'000 | Sukuk Wakalah RM'000 | Total RM'000 |
|---|---|---|---|---|
| **At 1 January 2019** | **2,135,518** | **1,968,075** | **-** | **4,103,593** |
| Profit expense during the year | **93,821** | **93,096** | **2,216** | **189,133** |
| Profit paid during the year | **(93,319)** | **(94,339)** | **-** | **(187,658)** |
| Repayment and redemption | **345,231** | **(301,859)** | **1,290,859** | **1,334,231** |
| **At 31 December 2019** | **2,481,251** | **1,664,973** | **1,293,075** | **5,439,299** |
| | | | | |
| **At 1 January 2018** | 2,238,167 | 2,287,877 | - | 4,526,044 |
| Profit expense during the year | 97,665 | 107,299 | - | 204,964 |
| Profit paid during the year | (97,665) | (108,407) | - | (206,072) |
| Repayment and redemption | (102,649) | (318,694) | - | (421,343) |
| **At 31 December 2018** | 2,135,518 | 1,968,075 | - | 4,103,593 |

| Company | Recourse obligation on financing sold RM'000 | Sukuk-MBSB SC Murabahah RM'000 | Total RM'000 |
|---|---|---|---|
| **At 1 January 2018** | 2,238,167 | 2,287,877 | 4,526,044 |
| Profit expense during the year | 24,843 | 69,836 | 94,679 |
| Repayment and redemption | (88,002) | (41,693) | (129,695) |
| Vested to MBSB Bank Berhad | (2,175,008) | (2,316,020) | (4,491,028) |
| **At 31 December 2018** | - | - | - |

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

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019

**Corporate information**

The Company is a public limited liability company, incorporated under the Companies Act 2016 in Malaysia, domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad. The address of its registered office and principal place of business is as follows:

11th Floor, Wisma MBSB
48, Jalan Dungun
Damansara Heights
50490 Kuala Lumpur

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2019 comprise of the Company and its subsidiaries (together reported as ("the Group") and individually referred to as ("Group entities") and the Group's interest in a joint venture.

The Company was principally engaged in investment holding. The Company had ceased providing new financing, but continues to manage its remaining conventional loans and advances.

The principal activities of the subsidiaries are described in Note 13. There have been no significant changes in the nature of the principal activities of the subsidiaries during the financial year.

The immediate and ultimate holding body of the Company is Employees Provident Fund ("EPF"), a statutory body established under the Employee Provident Fund Act 1991 (Act 452).

These financial statements were approved by the Board of Directors on 6 May 2020.

**1. Basis of preparation**

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

The financial statements of the Group and of the Company have been prepared on a historical cost basis except other than as disclosed in Note 2. The financial statements incorporate those activities relating to Islamic banking operations which have been undertaken by the Group. 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 in Note 53.

The financial statements are presented in Ringgit Malaysia ("RM") which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand (RM'000) except when otherwise indicated.

**2. Summary of significant accounting policies**

The accounting policies set out below have been applied consistently to the periods presented in these financial statements unless otherwise stated.

**(a) Foreign currency transactions**

Foreign currency transactions are translated to the respective functional currencies using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

**(b) Basis of consolidation**

**(i) Subsidiaries**

A subsidiary is an entity over which the Company 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, investment in subsidiary is accounted for at cost less any impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(o) below. On disposal of such investment, the difference between the net disposal proceeds and its carrying amount is included in profit or loss. Dividend income received from subsidiary is recognised in profit or loss on the date that the Company's right to receive payment is established.

**(ii) Business combination**

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 are expensed as incurred 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. Discount on acquisition which represents gain on bargain purchase 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.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(b) Basis of consolidation (cont'd.)**

**(ii) Business combination (cont'd.)**

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.

**(c) Joint ventures**

Joint ventures are corporations, partnerships or other entities over which there is contractually agreed sharing of control by the Group with one or more parties where the strategic financial and operating decisions relating to the entities require unanimous consent of the parties sharing control and the Group has rights over the net assets of the arrangements.

Investment in joint ventures are measured in the Group's statements of financial position at cost less impairment losses, unless the investment is classified as held for distribution. The cost of investment includes transaction costs.

**2. Summary of significant accounting policies (cont'd.)**

**(d) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(e) Intangible assets**

**(i) Goodwill**

Goodwill arises on business combination is initially measured at cost. Following initial recognition, goodwill is measured at cost less any 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.

During the year, the Group finalised provisional goodwill arising from acquisition of MBSB Bank Berhad as set out in Note 54.

**(ii) Other intangible assets**

Intangible assets other than goodwill, that are acquired is measured initially at cost. Following initial acquisition, these intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(e) Intangible assets (cont'd.)**

**(iii) Amortisation**

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.

Other intangible assets in the Group are as follows:

**Software license**

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

**Banking license**

Banking license was acquired from acquisition of MBSB Bank Berhad as set out in Note 54.

**Core deposit**

Core deposit was acquired from acquisition of MBSB Bank Berhad as set out in Note 54. Core deposit is amortised over the expected economic benefit period of 6 years.

**2. Summary of significant accounting policies (cont'd.)**

**(e) Intangible assets (cont'd.)**

**Land use rights**

Land use rights are distinct and separate from land ownership.

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

**(f) Property and equipment and depreciation**

All items of property and equipment are initially recorded at cost. The cost of an item of property 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 and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses. When significant parts of property 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 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.

Depreciation of property and equipment is provided for on a straight-line basis to write down the cost of each asset to its residual value over the estimated useful life from the date they are available for use. The estimated useful life is as follows:

| | |
|---|---|
| Building in progress | * |
| Buildings | 40 years |
| Building renovation | 5 years |
| Furniture and equipment | 5 years |
| Motor vehicles | 5 years |
| Data processing equipment | 5 years |

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

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

The residual values, useful lives and depreciation methods are reviewed at end of the reporting period, and adjusted prospectively, if appropriate.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(f) Property and equipment and depreciation (cont'd.)**

An item of property 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.

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

**(g) Leases**

The Group has applied MFRS 16 using the modified retrospective approach, which requires the recognition of the cumulative effect of initially applying MFRS 16 to the retained earnings brought forward and not to restate prior year comparatives information as previously reported under MFRS 117, *Leases* and related interpretations. The Group also does not recognise lease arrangements for which the lease term ends within 12 months of the date of initial application. The Group has elected, on a lease-by-lease basis, to recognise the right-of-use assets at the amount equal to the lease liabilities, hence there were no impact to the retained earnings brought forward as at 1 January 2019.

**Current financial year**

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

**2. Summary of significant accounting policies (cont'd.)**

**(g) Leases (cont'd.)**

**Current financial year (cont'd.)**

(i) Definition of a lease (cont'd.)

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(ii) Recognition and initial measurement

(a) As a Lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Group entities' incremental borrowing rate. Generally, the Group entities use their incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivables;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The Group excludes variable lease payments that linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(g) Leases (cont'd.)**

**Current financial year (cont'd.)**

(ii) Recognition and initial measurement (cont'd.)

(b) As a Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To clarify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, the Group applies MFRS 15 to allocate the consideration in the contract based on the stand-alone selling prices.

The Group recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease. The Group uses the interest rate implicit in the lease to measure the net investment in the lease.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease.

(iii) Subsequent measurement

(a) As a Lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, of if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

2. **Summary of significant accounting policies (cont'd.)**

**(g) Leases (cont'd.)**

**Current financial year (cont'd.)**

(iii) Subsequent measurement (cont'd.)

(a) As a Lessee (cont'd.)

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) As a Lessor

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "revenue".

**Previous financial year**

As a lessee

(i) Finance lease

Leases in terms of which the Group assumed substantially all the risks and rewards of ownership were classified as finance leases. Upon initial recognition, the leased asset was measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset was accounted for in accordance with the accounting policy applicable to the asset.

Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding liability. The finance expense was allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments were accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment was confirmed.

Leasehold land which in substance was a finance lease was classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating lease

Leases, where the Group did not assume substantially all risks and rewards of ownership were classified as operating leases and, except for property interest held under operating lease, the leased assets were not recognised on the statement of financial position. Property interest held under an operating lease, which was held to earn rental income or for capital appreciation or both, was classified as investment property and measured using fair value model.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(g) Leases (cont'd.)**

**Previous financial year (cont'd.)**

(ii) Operating lease (cont'd.)

Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals were charged to profit or loss in the reporting period in which they were incurred.

Leasehold land which in substance was an operating lease was classified as prepaid lease payments.

**(h) Investment property**

Investment property, comprising only freehold land is held for capital appreciation, and is not occupied by the Group.

The investment property is initially recognised at cost and subsequently at cost less any accumulated impairment losses. The carrying amount of the investment property is reviewed at the end of each reporting period to determine whether there is any indication of impairment based on market value determined by independent qualified valuers. Right-of-use asset held under a lease contract that meets the definition of investment property is initially measured similarly as other right-of-use assets.

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

**(i) 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 in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**2. Summary of significant accounting policies (cont'd.)**

**(j) Employee benefits**

**(i) Short-term benefits**

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

**(ii) Defined contribution plans**

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

**(iii) Employee share option scheme**

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

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

**(k) 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.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(k) Provisions (cont'd.)**

Provisions are reviewed at the end of each reporting period 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.

**(l) Cash and cash equivalents**

Cash and short-term funds in the statements of financial position consist of cash and balances with banks and other financial instituitions, money at call and deposit placements with banks and other financial institutions which have an insignificant risk of changes in fair value with original maturities of one month or less.

For the purposes of the statements of cash flows, cash and cash equivalents consist of cash and short-term funds as defined above.

**(m) Impairment of non-financial assets**

The Group assesses at the end of each reporting period 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. For goodwill and intangible assets that have an indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each period at the same time.

An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purpose of assessing impairment, assets are grouped at the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost of disposal. 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.

**2. Summary of significant accounting policies (cont'd.)**

**(m) Impairment of non-financial assets (cont'd.)**

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a pro-rata basis.

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

**(n) Financial instruments**

**(i) Recognition and initial measurement**

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

**Financial assets**

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(n) Financial instruments (cont'd.)**

**(ii) Classification and subsequent measurement**

Financial assets are not reclassified subsequent to their recognition unless the Group and Company change its business model for managing assets.

**a) Business model assessment**

The Group and the Company make an assessment of the objective of the business model ("BM") in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The Group and the Company consider all relevant evidence that is available at the date of the assessment. Such relevant evidence includes, but is not limited to:

i) the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

ii) how the performance of the portfolio (and the financial assets held within) is evaluated and reported to the management;

iii) the risks that affect the performance of the portfolio (and the financial assets held within) and, in particular, the way that those risks are managed;

iv) how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

v) the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's and the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

**2. Summary of significant accounting policies (cont'd.)**

**(n) Financial instruments (cont'd.)**

**(ii) Classification and subsequent measurement (cont'd.)**

**a) Business model assessment (cont'd.)**

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

**b) Assessment of whether contractual cash flows are solely payments of principal and interest/profit ("SPPI")**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest/Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group and the Company consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group and the Company consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's and the Company's claim to cash flows from specified assets (e.g. non-recourse financing); and
- features that modify consideration of the time value of money (e.g. periodical reset of profit rates).

**c) Financial assets measured at amortised cost**

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(n) Financial instruments (cont'd.)**

**(ii) Classification and subsequent measurement (cont'd.)**

**c) Financial assets measured at amortised cost (cont'd.)**

Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest/profit method. The amortised cost is reduced by impairment losses. Interest/profit income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest/profit income is recognised by applying effective profit rate to the gross carrying amount except for credit-impaired financial assets where the effective interest/profit rate is applied to the amortised cost.

Included in financial assets measured at amortised cost are financing and advances based on Shariah contracts of Tawarruq, Bai', Ijarah and Istisna'.

**d) Financial assets measured at fair value through other comprehensive income ("FVOCI")**

*(i) Debt investments*

This category comprises debt investment where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the debt investment, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Income calculated using the effective profit method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

*(ii) Equity investments*

This category comprises investment in equity that is not held for trading, and the Group and the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment by investment basis. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are not reclassified to profit or loss.

**2. Summary of significant accounting policies (cont'd.)**

**(n) Financial instruments (cont'd.)**

**(ii) Classification and subsequent measurement (cont'd.)**

**e) Financial assets measured at fair value through profit or loss ("FVTPL")**

All financial assets not measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any profit or dividend income, are recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment (Note 2(o)).

**Financial liabilities**

The categories of financial liabilities at initial recognition are as follows:

**a) Financial liabilities measured at amortised cost**

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective profit method.

Profit expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

**b) Financial liabilities measured at fair value through profit or loss ("FVTPL")**

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and financial liabilities that are specifically designated into this category upon initial recognition.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(n) Financial instruments (cont'd.)**

**(ii) Classification and subsequent measurement (cont'd.)**

**Financial liabilities (cont'd.)**

**b) Financial liabilities measured at fair value through profit or loss ("FVTPL") (cont'd.)**

On initial recognition, the Group or the Company may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

i) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;

ii) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel; or

iii) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any profit expense are recognised in the profit or loss.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Group and the Company recognise the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

**The Group's financial liabilities**

The financial liabilities include Sukuk - MBSB SC Murabahah, Sukuk Wakalah, trade payables, other payables, bank and other borrowings, recourse obligations on financing sold to Cagamas Berhad, deposits from customers and deposits and placements of banks and other financial institutions. The deposits are stated at placement values.

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

2. **Summary of significant accounting policies (cont'd.)**

(n) **Financial instruments (cont'd.)**

(ii) **Classification and subsequent measurement (cont'd.)**

**The Group's 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 using the effective profit method.

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/profit method.

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

(iii) **Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at higher of:

(a) the amount of the loss allowance; and

(b) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance to the principles of MFRS 15, *Revenue from Contracts with Customers*.

Liabilities arising from financial guarantees are included within "expected credit losses for commitment and contingencies" under other payables.

(iv) **Derecognition**

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(n) Financial instruments (cont'd.)**

**(iv) Derecognition (cont'd.)**

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

**(v) Modifications of financial assets and financial liabilities**

**Financial assets**

Modification of financial assets involves any modification made to the original payment terms and conditions of the financing facility following an increase in the credit risk of the customer. This includes but is not limited to an extension of tenure and flexible payment schedule including payment vacation, profit only payments, or capitalisation of principal or profit or both.

Once the financing assets have been modified, its satisfactory performance is monitored for a period of six months before it can be reclassified as non-credit impaired.

However, the financial assets will not be considered as modified if moratorium on financing repayments is granted or the financing is rescheduled/restructured by Agensi Kaunseling & Pengurusan Kredit ("AKPK").

The Group and the Company evaluate whether the cash flows of the modified asset are substantially different if the terms of a financial asset are modified.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost or FVOCI are not substantially different, the modification does not result in derecognition of the financial asset. In this case, the Group and the Company recalculate the gross carrying amount of the financial asset using the original effective profit rate of the asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit income, calculated using the effective interest/profit rate method.

**2. Summary of significant accounting policies (cont'd.)**

**(n) Financial instruments (cont'd.)**

**(v) Modifications of financial assets and financial liabilities (cont'd.)**

**Financial liabilities**

The Group and the Company derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective profit rate and the resulting gain or loss is recognised in profit or loss.

**(vi) Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Group and the Company currently have a legally enforceable right to set off the amounts and they intend either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**(vii) Fair value of financial assets and liabilities**

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 in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at that date. The fair value of a liability includes the risk that the Group will not be able to honour its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(o) Impairment of financial assets**

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income ("FVOCI") is recognised in profit or loss and accumulated in a separate component of equity.

***Measurement***

The Group and the Company recognise loss allowances for expected credit losses ("ECL") on financial assets measured at amortised cost and financial investments measured at FVOCI (debt securities), but not on investments in equity instruments. ECL are a probability-weighted estimate of credit losses.

The Group and the Company measure loss allowances at an amount equal to lifetime ECL except for debt securities that are determined to have low credit risk at the reporting date and other financial instruments of which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's and the Company's historical experience and informed credit assessment and including forward-looking information, where available.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

PD provides an estimate of the likelihood that a borrower will be unable to meet its debt obligation or default over a particular time horizon, usually in the course of 1 year.

LGD is the magnitude of the likely loss if there is a default. The Group and the Company estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

**2. Summary of significant accounting policies (cont'd.)**

**(o) Impairment of financial assets (cont'd.)**

***Measurement (cont'd.)***

EAD represents the expected exposure in the event of a default. The Group and the Company derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group and the Company measure ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which they are exposed to credit risk, even if, for credit risk management purposes, the Group and the Company consider a longer period. The maximum contractual period extends to the date at which the Group and the Company have the right to require repayment of an advance or terminate a financing commitment or guarantee.

However, for facilities that include both a financing and an undrawn commitment component, the Group and the Company measure ECL over a period longer than the maximum contractual period if the Group's and the Company's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's and the Company's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure. The Group and the Company can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group and the Company become aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group and the Company expect to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a financing with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include but not limited to:

- instrument type;
- credit risk gradings;
- collateral type;
- financing-to-value ("FTV") ratio for retail property financing;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(o) Impairment of financial assets (cont'd.)**

***Measurement (cont'd.)***

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

***Recognition***

Lifetime ECL is the ECL that results from all possible default events over the expected life of the asset, while 12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating ECL is the maximum contractual period over which the Group and the Company are exposed to credit risk.

Financial assets are segregated into 3 stages depending on the changes in credit quality since initial recognition.

Stage 1 includes financial assets that do not have a significant increase in credit risk since initial recognition or those that have low credit risk at reporting date. For these assets, 12-month ECL are recognised and profit income is calculated on the gross carrying amount of the assets.

Stage 2 includes financial assets that have a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. For those assets, lifetime ECL is recognised and profit income is still calculated on the gross carrying amount of the asset.

Stage 3 includes financial assets that have objective evidence of impairment at reporting date. For these assets, lifetime ECL is recognised and profit income is calculated on the net carrying amount.

***Significant increase in credit risk ("SICR")***

Obligatory triggers applied by the Group and the Company in determining whether there has been a significant increase in credit risk is where the principal or profit or both of the financing assets are overdue for more than 1 month, after grace period, but less than 3 months or hit any of the qualitative indicators but not limited to increase in internal credit spread of an existing facility, breach of covenants and decrease in securities prices.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's and the Company's credit risk management processes. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watchlist. Such qualitative factors are based on the management's expert judgement and relevant historical experiences.

The Group and the Company determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

**2. Summary of significant accounting policies (cont'd.)**

**(o) Impairment of financial assets (cont'd.)**

***Significant increase in credit risk ("SICR") (cont'd.)***

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on a financial asset returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group and the Company determine a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a financing have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

***Credit-impaired (Default)***

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Group and the Company consider a financial asset to be in default when:

(a) Payment conduct

- Where the principal or profit or both of the financing is past due for more than ninety (90) days or three (3) months;

- In the case of revolving facilities (e.g. revolving working capital or overdraft facilities), notwithstanding the first trigger above, where the outstanding amount has remained in excess of the approved limit for a period of more than ninety (90) days or three (3) months;

- Where payments are scheduled on intervals of three (3) months or longer, the account shall be classified as impaired as soon as a default occurs (i.e. when the customer is unable to meet the contractual payment terms), unless it does not exhibit any weakness that would render it classified as impaired according to the Group's and the Company's credit risk grading framework.

(b) Restructured and rescheduled ("R&R") financing; or

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(o) Impairment of financial assets (cont'd.)**

***Credit-impaired (Default) (cont'd.)***

(c) Customer/Issuer is declared bankrupt/wound up.

In assessing whether a borrower is in default, the Group and the Company consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group or the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial asset is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group and the Company for regulatory capital purposes.

ECL against credit-impaired financial assets are determined based on an assessment of the recoverable cash flows, including the realisation of any collateral held where appropriate. The ECL held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective profit rate, and the gross carrying value of the instrument prior to any credit impairment.

***Restructured financial assets***

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

ECL for restructured financial assets that are not considered to be credit-impaired will be recognised on 12-month basis. However, if there is a significant increase in credit risk, the ECL will be recognised on a lifetime basis.

**2. Summary of significant accounting policies (cont'd.)**

**(o) Impairment of financial assets (cont'd.)**

***Incorporation of forward-looking information***

MFRS 9 specifically requires measurement of ECL using not only past and current information, but also including forecast information. Hence, the ECL calculations include forward-looking adjustment according to the expected future macroeconomic conditions. Forward-looking adjustment incorporated within the ECL model is a combination of statistical analysis and expert judgements based on the availability of detailed information. External information considered includes economic data and forecasts published by external rating agencies.

Key macroeconomic variables ("MEV") that are incorporated into the ECL calculations include, but not limited to House Price Index ("HPI") and Consumer Price Index ("CPI"). Forward-looking MEVs are supported with 3 economic scenarios i.e baseline, best and worst case scenarios based on the available forecasts.

Methodology and assumptions including forecasts of future economic conditions are reviewed regularly.

***Write-down/write-off***

Financial assets and related impairment allowances are normally written down/written off, either partially or in full, when there is no realistic prospect of recovery of the financial assets. This is generally the case when the Group and the Company determine that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-down/write-off. This assessment is carried out at the individual asset level. Where financial assets are secured, the write-down/write-off is normally done after receipt of any proceeds from the realisation of security.

Financial assets that are written down/written off could still be subject to enforcement activities in order to comply with the Group's and the Company's procedures for recovery of amounts due.

**(p) 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.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(q) Recognition of income**

Revenue is recognised to the extent that it is probable that the economic benefit 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/Profit income and interest/profit expense**

Interest/Profit income is recognised in profit or loss for all income/profit-bearing assets and liabilities using the effective profit method.

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

Interest/Profit on impaired financial assets is recognised using the rate of interest/profit used to discount the future cash flows for the purpose of measuring the impairment loss.

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

**(ii) Fee income**

Financing 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) Recognition of income (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**

Other income, including 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 or substantively enacted by the end of reporting period.

Current tax is 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 end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable 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.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(r) Income tax (cont'd.)**

**(ii) Deferred tax (cont'd.)**

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 the end of each reporting period 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 assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be utilised.

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

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) Zakat**

This represents business zakat that is paid on the Group's portion. It is an obligatory amount payable by the Group to comply with the rules and principles of Shariah. The zakat is computed based on working capital method at a rate of 2.5%. The beneficiaries of zakat fund include schools, mosques, universities and non-government organisations.

**2. Summary of significant accounting policies (cont'd.)**

**(s) Zakat (cont'd.)**

The obligation and responsibility of specific payment of zakat on deposit fund lies with the muslim depositors. As such, no accrual of zakat expenses is recognised in the financial statements of the Group.

**(t) Earnings per ordinary share**

The Group and the Company present the basic earnings per share ("EPS") data for their ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group and the Company by the weighted average number of ordinary shares outstanding during the year.

**(u) Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

**(v) 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.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**2. Summary of significant accounting policies (cont'd.)**

**(v) Fair value measurement (cont'd.)**

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 that the Group can access at the measurement date;

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) MFRSs, interpretation and amendments effective for annual periods on or after 1 January 2019**

On 1 January 2019, where applicable, the Group and the Company adopted the following MFRSs and Amendments to MFRSs mandatory for annual financial periods beginning on or after 1 January 2019:

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits - Plan Amendment, Curtailment or Settlement*

**3. Changes in accounting policies (cont'd.)**

**(a) MFRSs, interpretation and amendments effective for annual periods on or after 1 January 2019 (cont'd.)**

- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures*

The adoption of the new and revised MFRSs and interpretation did not result in any significant impact on the financial statements of the Group and of the Company except for effects of adopting MFRS 16, *Leases* which is further discussed in Note 17.

**(b) MFRSs, interpretations and amendments issued but not yet effective**

The following are accounting standards, interpretations and amendments of the MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

**MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2020**

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements and* MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS 9, *Financial Instruments,* MFRS 139, *Financial Instruments: Recognition* and *Measurement* and MFRS 7*, Financial Instruments: Disclosures –Interest Rate Benchmark Reform*

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

- MFRS 17, *Insurance Contracts*

**MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022**

- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

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

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**3. Changes in accounting policies (cont'd.)**

**(b) MFRSs, interpretations and amendments issued but not yet effective (cont'd.)**

The Group and the Company plan to apply the abovementioned accounting standards, interpretations and amendments from the annual period beginning on 1 January 2022 for the amendment that is effective for annual periods beginning on or after 1 January 2022.

The initial application of the abovementioned accounting standards, amendments and interpretations is not expected to have material financial impact to the current period and prior period financial statements of the Group and the Company.

**4. Significant accounting estimates and judgements**

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

**Key source of estimation uncertainty**

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

**(i) Expected credit losses/Allowance for impairment of loans, financing and advances and other receivables**

The Group's and the Company's ECL calculations involve a number of underlying assumptions and estimates such as:

- criteria that determine if there has been a significant increase in credit risk; and
- development of ECL models which includes the choice of inputs relating to the macroeconomic variables.

The calculation of credit impairment provisions also involves expert credit judgements to be applied by the credit risk management team based upon counterparty information from various sources including relationship managers and external market information.

**4. Significant accounting estimates and judgements (cont'd.)**

The Group's and the Company's significant accounting policies on the impairment of financial assets are disclosed in Note 2(o) and the amount of impairment losses provided by the Group and the Company is disclosed in Notes 9, 11, 13 and 26.

**(ii) Goodwill from acquisition of MBSB Bank Berhad**

Goodwill arising from consolidation represents the excess of the purchase consideration and the fair value of the net identifiable assets of the acquired banking entity.

Goodwill is not amortised but tested for impairment annually based on the recoverable amount of the investment with value-in-use ("VIU") calculations. VIU was calculated with cash flow projections, of which the first 3 years of cash flow projections were based on the 2020 financial budgets approved by the Board of Directors and discounted using Weighted Average Cost of Capital ("WACC") rates. Cash flows beyond the 3 years were estimated and discounted using WACC rates.

During the year, the Group finalised the purchase price allocation of MBSB Bank Berhad and reallocated the provisional goodwill as disclosed in Note 54.

**5. Cash and short-term funds and deposits and placements with financial institutions**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| (a) Cash and short-term funds: | | | | |
| Cash at banks and on hand | **196,865** | 262,346 | **45,637** | 72,070 |
| Money at call and deposit placements maturing within one month | **1,838,024** | 3,149,640 | **143,889** | 83,007 |
| | **2,034,889** | 3,411,986 | **189,526** | 155,077 |
| (b) Deposits and placements with financial institutions with original maturity of more than one month | | | | |
| Licensed Banks | **873,515** | 931,087 | **-** | 154,347 |
| | **2,908,404** | 4,343,073 | **189,526** | 309,424 |

The ECL for cash and short-term funds and deposits and placements above is nil (2018: nil).

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 6. Derivative financial assets/(liabilities)

The following table summarises the contractual or underlying principal amounts of derivative financial instruments held at fair value through profit or loss. The principal or contractual amount of these instruments reflects the volume of transactions outstanding at financial position date, and do not represent amounts at risk.

Trading derivative financial instruments are revalued on a gross position and the unrealised gains or losses are reflected as derivative financial assets and liabilities respectively.

| | | Group | |
|---|---|---|---|
| | Notional amount RM'000 | Fair value Assets RM'000 | Fair value Liabilities RM'000 |
| **2019** | | | |
| **Trading derivatives** | | | |
| Foreign exchange contracts: | | | |
| Currency forward | | | |
| - Less than one year | **228,295** | **4,239** | **(1)** |

| | | Group | |
|---|---|---|---|
| | Notional amount RM'000 | Fair value Assets RM'000 | Fair value Liabilities RM'000 |
| **2018** | | | |
| **Trading derivatives** | | | |
| Foreign exchange contracts: | | | |
| Currency forward | | | |
| - Less than one year | 5,842 | 67 | (2) |

## 7. Financial investments at FVOCI

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| **At fair value** | | |
| **Money Market Instruments** | | |
| Malaysian Government Investment Issues | **7,530,627** | 2,154,192 |
| | | |
| **Debt securities:** | | |
| In Malaysia | | |
| | | |
| Private and Islamic debt securities | **1,109,787** | 1,060,628 |
| Government Guaranteed debt securities | **2,054,230** | 1,882,285 |
| | **10,694,644** | 5,097,105 |

The carrying amount of financial investments measured at FVOCI is its fair value. Accordingly, the recognition of an impairment loss does not affect the carrying amount of those assets, but is reflected as a debit to profit or loss or retained earnings, and credit to other comprehensive income.

ECL movement for financial investments at FVOCI:

| | Group | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| At 1 January 2019 | **-** | **-** | **-** | **-** |
| Total charge to profit or loss: | **18** | **-** | **-** | **18** |
| Change in credit risk | **18** | **-** | **-** | **18** |
| At 31 December 2019 | **18** | **-** | **-** | **18** |

There was no ECL for financial investments at FVOCI during the financial year 2018.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**8. Financial investments at amortised cost**

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| **At amortised cost** | | |
| **Quoted securities:** | | |
| In Malaysia | | |
| Private and Islamic debt securities | **494,857** | 20,356 |
| Less: ECL stage 1 | **(152)** | (6) |
| | **494,705** | 20,350 |

ECL movement for financial investments at amortised cost:

| | Group | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| ECL at 1 January 2019 | **6** | **-** | **-** | **6** |
| Total charge to profit or loss -New financial assets purchased (Note 40) | **146** | **-** | **-** | **146** |
| ECL at 31 December 2019 | **152** | **-** | **-** | **152** |

| | Group | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| ECL upon adoption of MFRS 9 as at 1 January 2018 | - | - | - | - |
| Total charge to profit or loss - Change in credit risk (Note 40) | 6 | - | - | 6 |
| At 31 December 2018 | 6 | - | - | 6 |

**9. Loans, financing and advances**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| (i) By type | | | | |
| At amortised cost | | | | |
| *Islamic:* | | | | |
| Term financing: | | | | |
| Personal financing | **19,994,419** | 20,562,117 | **-** | - |
| Property financing | **5,169,539** | 4,340,081 | **-** | - |
| Industrial hire purchase | **808,958** | 781,118 | **-** | - |
| Bridging financing | **593,906** | 716,015 | **-** | - |
| Auto financing | **160,479** | 213,898 | **-** | - |
| Other term financing | **5,949,892** | 5,456,952 | **-** | - |
| Revolving credit | **703,389** | 743,218 | **-** | - |
| Trade finance | **560,978** | 138,473 | **-** | - |
| Trusts receipts | **-** | 51,525 | **-** | - |
| Cashline | **3,663** | - | **-** | - |
| Staff financing | **44,798** | 41,277 | **-** | - |
| *Conventional:* | | | | |
| End finance: | | | | |
| Normal housing programme | **864,289** | 1,063,043 | **864,289** | 1,063,043 |
| Low cost housing programme | **3,252** | 3,367 | **3,252** | 3,367 |
| Other term financing | **761,218** | 826,113 | **761,218** | 826,113 |
| Bridging financing | **228,310** | 217,708 | **228,310** | 217,708 |
| Auto financing | **17,080** | 17,319 | **17,080** | 17,319 |
| Staff financing | **320** | 380 | **320** | 380 |
| Gross loans, financing and advances | **35,864,490** | 35,172,604 | **1,874,469** | 2,127,930 |
| Less: ECL | | | | |
| - Stage 1 | **(411,822)** | (358,907) | **(10,532)** | (12,370) |
| - Stage 2 | **(433,194)** | (550,621) | **(64,260)** | (94,982) |
| - Stage 3 | **(1,065,652)** | (1,129,957) | **(653,172)** | (694,076) |
| Net loans, financing and advances | **33,953,822** | 33,133,119 | **1,146,505** | 1,326,502 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**9. Loans, financing and advances (cont'd.)**

Included in Islamic personal financing and property financing are financing that have been assigned as security for financing facilities granted to the Group as shown below:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Islamic financing facility granted by: | | |
| Cagamas Berhad - recourse obligation on financing sold (Note 27) | **2,608,415** | 2,042,743 |
| Sukuk - MBSB SC Murabahah (Note 28) | **2,274,991** | 2,584,123 |

**(ii) By residual contractual maturity**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Maturing within one year | **2,632,716** | 2,196,230 | **578,839** | 715,288 |
| One year to three years | **1,778,969** | 1,792,653 | **128,050** | 22,541 |
| Three years to five years | **2,239,227** | 2,073,320 | **123,980** | 133,570 |
| Over five years | **29,213,578** | 29,110,401 | **1,043,600** | 1,256,531 |
| | **35,864,490** | 35,172,604 | **1,874,469** | 2,127,930 |

**(iii) By economic purpose**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Personal use | **20,090,515** | 20,674,423 | **311** | 321 |
| Construction | **4,833,569** | 4,769,205 | **436,805** | 423,262 |
| Purchase of landed property: | | | | |
| - Residential | **5,604,901** | 5,025,148 | **800,903** | 988,217 |
| - Non-residential | **740,556** | 825,713 | **104,275** | 110,126 |
| Working capital | **2,477,796** | 2,088,603 | **85,125** | 113,625 |
| Purchase of transport vehicles | **175,924** | 228,603 | **14,681** | 14,968 |
| Purchase of other fixed assets | **955,086** | 871,473 | **5,752** | 7,778 |
| Purchase of other securities | **34,452** | 580 | **-** | - |
| Purchase of consumer durables | **5,738** | 6,598 | **-** | - |
| Others | **945,953** | 682,258 | **426,617** | 469,633 |
| | **35,864,490** | 35,172,604 | **1,874,469** | 2,127,930 |

**9. Loans, financing and advances (cont'd.)**

**(iv) By type of customers**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Individuals | **26,120,060** | 26,104,420 | **839,081** | 1,034,810 |
| Domestic business enterprises: | | | | |
| - Small medium enterprises | **2,500,266** | 2,722,949 | **700,906** | 691,374 |
| - Non-bank financial institutions | **710,454** | 536,644 | **-** | - |
| - Government | **141,302** | 240,301 | **-** | - |
| - Others | **6,384,211** | 5,562,252 | **334,482** | 401,746 |
| Foreign entities | **8,197** | 6,038 | **-** | - |
| | **35,864,490** | 35,172,604 | **1,874,469** | 2,127,930 |

**(v) By sector**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Household sectors | **26,120,060** | 26,110,523 | **839,081** | 1,034,811 |
| Construction | **5,061,309** | 6,116,961 | **690,520** | 721,714 |
| Finance, insurance and business services | **2,798,729** | 1,089,016 | **11,002** | 13,056 |
| Wholesale & retail trade and restaurants & hotels | **472,966** | 168,282 | **3,420** | 3,625 |
| Manufacturing | **374,515** | 382,878 | **92,047** | 120,869 |
| Education, health and others | **317,522** | 647,421 | **233,346** | 228,247 |
| Electricity, gas and water | **262,076** | 233,110 | **-** | - |
| Transport, storage and communication | **206,583** | 124,403 | **1,896** | 2,283 |
| Agriculture | **133,443** | 240,002 | **3,157** | 3,325 |
| Mining and quarrying | **117,287** | 60,008 | **-** | - |
| | **35,864,490** | 35,172,604 | **1,874,469** | 2,127,930 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**9. Loans, financing and advances (cont'd.)**

**(vi) By profit rate sensitivity**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Fixed rate: | | | | |
| Personal financing | **17,477,316** | 18,976,550 | **-** | - |
| Bridging, structured and term loans and financing | **1,063,641** | 1,185,663 | **127,066** | 262,717 |
| Mortgage and property Islamic | **471,125** | 568,200 | **2,211** | 3,233 |
| Auto financing | **180,167** | 233,797 | **17,080** | 17,319 |
| Variable rate: | | | | |
| Bridging, structured and term loans and financing | **8,547,101** | 7,745,975 | **862,462** | 781,104 |
| Mortgage and property Islamic | **5,591,882** | 4,859,937 | **865,650** | 1,063,557 |
| Personal financing | **2,533,258** | 1,602,482 | **-** | - |
| | **35,864,490** | 35,172,604 | **1,874,469** | 2,127,930 |

**(vii) By geographical distribution**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Malaysia | **35,864,490** | 35,172,470 | **1,874,469** | 2,127,930 |
| United Kingdom | **-** | 134 | **-** | - |
| | **35,864,490** | 35,172,604 | **1,874,469** | 2,127,930 |

**9. Loans, financing and advances (cont'd.)**

**(viii) Movement of gross loans, financing and advances**

| | Group | | | |
|---|---|---|---|---|
| | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **2019** | | | | |
| Gross carrying amount as at 1 January 2019 | **28,721,082** | **4,528,051** | **1,923,471** | **35,172,604** |
| Transfer to stage 1 | **963,825** | **(869,735)** | **(94,090)** | **-** |
| Transfer to stage 2 | **(1,163,094)** | **1,405,858** | **(242,764)** | **-** |
| Transfer to stage 3 | **(137,451)** | **(285,312)** | **422,763** | **-** |
| New financing/disbursement during the year | **5,007,227** | **461,038** | **66,694** | **5,534,959** |
| Repayment during the year | **(4,033,508)** | **(658,155)** | **(155,110)** | **(4,846,773)** |
| Other movements | **57,871** | **5,251** | **162,470** | **225,592** |
| Write-offs | **-** | **-** | **(221,892)** | **(221,892)** |
| | **29,415,952** | **4,586,996** | **1,861,542** | **35,864,490** |

| | Group | | | |
|---|---|---|---|---|
| | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **2018** | | | | |
| Gross carrying amount upon adoption of MFRS 9 as at 1 January 2018 | 28,217,055 | 4,410,949 | 1,573,175 | 34,201,179 |
| Acquisition of MBSB Bank Berhad | 706,265 | 248,922 | 111,039 | 1,066,226 |
| Transfer to stage 1 | 1,466,770 | (1,448,363) | (18,407) | - |
| Transfer to stage 2 | (2,022,348) | 2,232,135 | (209,787) | - |
| Transfer to stage 3 | (434,603) | (507,007) | 941,610 | - |
| New financing/disbursement during the year | 5,944,975 | 908,285 | 50,667 | 6,903,927 |
| Repayment during the year | (5,399,551) | (1,267,900) | (255,724) | (6,923,175) |
| Other movements | 241,478 | (47,915) | 199,687 | 393,250 |
| Write-offs | - | - | (578,985) | (578,985) |
| Transfer from/(to) assets held-for-sale | 1,041 | (1,055) | 110,196 | 110,182 |
| | 28,721,082 | 4,528,051 | 1,923,471 | 35,172,604 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**9. Loans, financing and advances (cont'd.)**

**(viii) Movement of gross loans, financing and advances (cont'd.)**

| | Company | | | |
|---|---|---|---|---|
| | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **2019** | | | | |
| Gross carrying amount as at 1 January 2019 | **406,208** | **590,545** | **1,131,177** | **2,127,930** |
| Transfer to stage 1 | **55,468** | **(49,302)** | **(6,166)** | **-** |
| Transfer to stage 2 | **(29,468)** | **95,223** | **(65,755)** | **-** |
| Transfer to stage 3 | **(2,184)** | **(32,206)** | **34,390** | **-** |
| Disbursement during the year | **-** | **95** | **-** | **95** |
| Repayment during the year | **(83,245)** | **(136,678)** | **(93,883)** | **(313,806)** |
| Other movements | **3,886** | **12,610** | **43,754** | **60,250** |
| | **350,665** | **480,287** | **1,043,517** | **1,874,469** |

| | Company | | | |
|---|---|---|---|---|
| | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **2018** | | | | |
| Gross carrying amount upon adoption of MFRS 9 as at 1 January 2018 | 28,217,055 | 4,410,949 | 1,573,175 | 34,201,179 |
| Vesting of assets to MBSB Bank Berhad | (27,853,305) | (3,060,833) | (735,137) | (31,649,275) |
| Transfer to stage 1 | 780,340 | (776,493) | (3,847) | - |
| Transfer to stage 2 | (610,364) | 740,884 | (130,520) | - |
| Transfer to stage 3 | (230,178) | (277,727) | 507,905 | - |
| New financing/disbursement during the year | 2,258,165 | 373,830 | 18,500 | 2,650,495 |
| Repayment during the year | (2,264,570) | (840,860) | (138,093) | (3,243,523) |
| Other movements | 108,700 | 22,250 | 58,226 | 189,176 |
| Write-offs | - | - | (12,676) | (12,676) |
| Transfer from/(to) assets held-for-sale | 365 | (1,455) | (6,356) | (7,446) |
| | 406,208 | 590,545 | 1,131,177 | 2,127,930 |

**9. Loans, financing and advances (cont'd.)**

**(ix) Movement of ECL for loans, financing and advances**

| | Group | | | |
|---|---|---|---|---|
| | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **2019** | | | | |
| ECL as at 1 January 2019 | **358,907** | **550,621** | **1,129,957** | **2,039,485** |
| Charged to profit or loss (Note 40) | **52,915** | **(117,427)** | **157,589** | **93,077** |
| Changes in the ECL | | | | |
| - Transfer to stage 1 | **142,567** | **(96,973)** | **(45,594)** | **-** |
| - Transfer to stage 2 | **(20,096)** | **162,154** | **(142,058)** | **-** |
| - Transfer to stage 3 | **(1,885)** | **(67,373)** | **69,258** | **-** |
| New financing/disbursement during the year | **110,426** | **39,036** | **38,274** | **187,736** |
| Repayment during the year | **(178,959)** | **(249,340)** | **(85,700)** | **(513,999)** |
| Changes in credit risk parameters | **48,045** | **183,422** | **396,017** | **627,484** |
| Change to model assumptions and methodologies ^ | **(47,183)** | **(88,353)** | **(72,608)** | **(208,144)** |
| Write-offs | **-** | **-** | **(221,894)** | **(221,894)** |
| ECL as at 31 December 2019 | **411,822** | **433,194** | **1,065,652** | **1,910,668** |

| | Group | | | |
|---|---|---|---|---|
| | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **2018** | | | | |
| ECL upon adoption of MFRS 9 as at 1 January 2018 | 510,347 | 703,478 | 1,052,901 | 2,266,726 |
| Acquisition of subsidiary | 15,639 | 6,622 | 45,716 | 67,977 |
| Charged to profit or loss (Note 40) | (167,780) | (160,399) | 500,261 | 172,082 |
| Changes in the ECL | | | | |
| - Transfer to stage 1 | 44,641 | (39,084) | (5,557) | - |
| - Transfer to stage 2 | (256,772) | 296,155 | (39,383) | - |
| - Transfer to stage 3 | (221,149) | (296,808) | 517,957 | - |
| New financing/disbursement during the year | 138,500 | 89,073 | 42,504 | 270,077 |
| Repayment during the year | (298,743) | (505,694) | (281,308) | (1,085,745) |
| Changes in credit risk parameters | 425,743 | 295,959 | 266,048 | 987,750 |
| Write-offs | - | - | (575,219) | (575,219) |
| Transfer from assets held-for-sale | 701 | 920 | 106,298 | 107,919 |
| ECL as at 31 December 2018 | 358,907 | 550,621 | 1,129,957 | 2,039,485 |

^ The changes to model assumptions and methodologies were in relation to incorporation of additional macroeconomic variables ("MEV") to account for potential impact from various external factors and incorporation of cure rates to the loss given default ("LGD") model.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**9. Loans, financing and advances (cont'd.)**

**(ix) Movement of ECL for loans, financing and advances (cont'd.)**

| | Company | | | |
|---|---|---|---|---|
| | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **2019** | | | | |
| ECL as at 1 January 2019 | **12,370** | **94,982** | **694,076** | **801,428** |
| Charged to profit or loss (Note 40) | **(1,838)** | **(30,722)** | **(40,904)** | **(73,464)** |
| Changes in the ECL | | | | |
| - Transfer to stage 1 | **10,486** | **(6,012)** | **(4,474)** | **-** |
| - Transfer to stage 2 | **(1,023)** | **49,235** | **(48,212)** | **-** |
| - Transfer to stage 3 | **(73)** | **(6,448)** | **6,521** | **-** |
| Disbursement during the year | **-** | **8** | **-** | **8** |
| Repayment during the year | **(9,951)** | **(78,636)** | **(33,852)** | **(122,439)** |
| Changes in credit risk parameters | **1,147** | **25,813** | **68,598** | **95,558** |
| Change to model assumptions and methodologies^ | **(2,424)** | **(14,682)** | **(29,485)** | **(46,951)** |
| ECL as at 31 December 2019 | **10,532** | **64,260** | **653,172** | **727,964** |

^ The changes to model assumptions and methodologies were in relation to incorporation of additional macroeconomic variables ("MEV") to account for potential impact from various external factors and incorporation of cure rates to the loss given default ("LGD") model.

| | Company | | | |
|---|---|---|---|---|
| | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **2018** | | | | |
| ECL upon adoption of MFRS 9 as at 1 January 2018 | 510,347 | 703,478 | 1,052,901 | 2,266,726 |
| Assets vested to MBSB Bank Berhad | (492,316) | (444,705) | (538,420) | (1,475,441) |
| - ECL as at 2 April 2018 | (454,139) | (432,125) | (538,420) | (1,424,684) |
| - Subsequent transfer of ECL * | (38,177) | (12,580) | - | (50,757) |
| Charged to profit or loss (Note 40) | (5,695) | (164,027) | 189,308 | 19,586 |
| Changes in the ECL | | | | |
| - Transfer to stage 1 | 31,946 | (26,616) | (5,330) | - |
| - Transfer to stage 2 | (92,365) | 119,971 | (27,606) | - |
| - Transfer to stage 3 | (139,981) | (159,102) | 299,083 | - |
| New financing/disbursement during the year | 66,471 | 45,562 | 15,918 | 127,951 |
| Repayment during the year | (117,971) | (326,032) | (182,594) | (626,597) |
| Changes in credit risk parameters | 246,205 | 182,190 | 89,837 | 518,232 |
| Write-offs | - | - | (8,906) | (8,906) |
| Transfer from/(to) assets held-for-sale (Note 11) | 34 | 236 | (807) | (537) |
| ECL as at 31 December 2018 | 12,370 | 94,982 | 694,076 | 801,428 |

* Revision of ECL upon adoption of MFRS 9 Financial Instruments had been made post vesting of assets and liabilities. The adjustment of the ECL amounting to RM50,757,000 was subsequently transferred to MBSB Bank.

**9. Loans, financing and advances (cont'd.)**

**(x) Movements of impaired loans, financing and advances**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Balance as at 1 January | **1,923,471** | 1,573,175 | **1,131,177** | 1,573,175 |
| Acquisition of MBSB Bank Berhad | **-** | 111,039 | **-** | - |
| Assets vested to MBSB Bank Berhad | **-** | - | **-** | (735,137) |
| Classified as impaired during the year | **489,457** | 992,277 | **34,390** | 526,405 |
| Reclassified as non-impaired | **(336,854)** | (228,194) | **(71,921)** | (134,367) |
| Amount recovered | **(155,110)** | (255,724) | **(93,883)** | (138,093) |
| Other movements | **162,470** | 199,687 | **43,754** | 58,226 |
| Amount written off | **(221,892)** | (578,985) | **-** | (12,676) |
| Reclassification from/(to) assets held-for-sale | **-** | 110,196 | **-** | (6,356) |
| Balance as at 31 December | **1,861,542** | 1,923,471 | **1,043,517** | 1,131,177 |
| Less: ECL stage 3 | **(1,065,652)** | (1,129,957) | **(653,172)** | (694,076) |
| Net impaired loans, advances and financing | **795,890** | 793,514 | **390,345** | 437,101 |
| Net impaired as a percentage of net loans, financing and advances | **2.34%** | 2.39% | **34.05%** | 32.95% |
| Gross impaired as a percentage of gross loans, financing and advances | **5.19%** | 5.47% | **55.67%** | 53.16% |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**9. Loans, financing and advances (cont'd.)**

**(xi) Impaired loans, financing and advances by economic purpose**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Personal use | **140,300** | 159,884 | **-** | 265 |
| Construction | **630,722** | 600,444 | **339,853** | 333,350 |
| Purchase of landed property: | | | | |
| - Residential | **447,465** | 502,027 | **232,072** | 284,612 |
| - Non-residential | **105,258** | 101,007 | **71,857** | 71,623 |
| Working capital | **45,465** | 44,037 | **-** | - |
| Purchase of transport vehicles | **45,818** | 50,037 | **13,948** | 14,261 |
| Purchase of other fixed assets | **39,745** | 33,152 | **1,400** | 1,401 |
| Purchase of other securities | **-** | 11 | **-** | - |
| Purchase of consumer durables | **5,626** | 6,456 | **-** | - |
| Others | **401,143** | 426,416 | **384,387** | 425,665 |
| | **1,861,542** | 1,923,471 | **1,043,517** | 1,131,177 |

**(xii) Impaired loans, financing and advances by sector**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Household sector | **669,634** | 745,023 | **271,089** | 327,256 |
| Construction | **751,711** | 795,663 | **544,444** | 581,836 |
| Finance, insurance and business services | **15,737** | 12,602 | **1,012** | 998 |
| Wholesale & retail trade and restaurants & hotels | **22,744** | 21,148 | **172** | 33 |
| Manufacturing | **60,863** | 1,070 | **1,096** | 753 |
| Education, health and others | **298,183** | 308,577 | **225,648** | 220,245 |
| Transport, storage and communication | **3,810** | 343 | **56** | 56 |
| Mining and quarrying | **38,691** | 38,891 | **-** | - |
| Agriculture | **169** | 154 | **-** | - |
| | **1,861,542** | 1,923,471 | **1,043,517** | 1,131,177 |

**9. Loans, financing and advances (cont'd.)**

**(xiii) Impaired loans, financing and advances by geographical distribution**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Malaysia | **1,861,542** | 1,923,471 | **1,043,517** | 1,131,177 |

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 ECL for the assets subject to impairment review. In this respect, the individual impairment allowance as at the reporting date would have been higher for the Group by approximately RM374,262,004 (2018: RM394,303,968) and for the Company by approximately RM261,836,839 (2018: RM304,838,741) without the mitigating effect of collateral held.

**10. Trade receivables**

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Gross balance | **24,835** | 25,395 |
| Less: ECL stage 3 | **(24,834)** | (24,834) |
| | **1** | 561 |
| Movements of ECL stage 3 is as follows: | | |
| Balance as at 1 January | **24,834** | 24,842 |
| Writeback (Note 40) | **-** | (8) |
| Balance as at 31 December | **24,834** | 24,834 |

Trade receivables are non-interest bearing and credit terms provided are generally on 7 to 30 days term (2018: 7 to 30 days).

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**11. Other receivables**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Advances in respect of certain projects | **514,318** | 463,009 | **-** | - |
| Loan commitment fees | **-** | 8,740 | **-** | 8,740 |
| Amount due from subsidiaries | **-** | - | **65,041** | 58,152 |
| Foreclosed properties | **113,262** | 133,505 | **113,262** | 133,505 |
| Prepayments and deposits | **17,297** | 11,915 | **8,633** | 8,633 |
| Sundry receivables | **90,961** | 132,987 | **18,490** | 41,116 |
| Public Low Cost Housing Programme ("PLCHP") | **-** | 23,113 | **-** | 23,113 |
| Deferred expenses | **2,322** | 2,598 | **-** | - |
| | **738,160** | 775,867 | **205,426** | 273,259 |
| Less: Allowance for impairment | **(549,818)** | (532,820) | **(100,520)** | (124,587) |
| | **188,342** | 243,047 | **104,906** | 148,672 |
| Movements of allowance for impairment are as follows: | | | | |
| Balance as at 1 January | **532,820** | 487,099 | **124,587** | 116,821 |
| Charge/(reversal) for the year: | | | | |
| Sundry receivables | **3,711** | - | **3,691** | - |
| Charge of impairment losses for foreclosed properties | **2,960** | - | **2,960** | - |
| Disposal of foreclosed properties | **(9,129)** | (440) | **(9,129)** | (440) |
| Advances in respect of certain projects | **51,309** | 46,161 | **-** | - |
| Amount due from subsidiaries (Note 40) | **-** | - | **12,342** | 8,222 |
| Other write off | **(23,113)** | - | **(25,191)** | (16) |
| Write off of loan commitment fees | **(8,740)** | - | **(8,740)** | - |
| Balance as at 31 December | **549,818** | 532,820 | **100,520** | 124,587 |

**11. Other receivables (cont'd.)**

Details of allowance for impairment are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Advances in respect of certain projects | **510,130** | 458,821 | **-** | - |
| Foreclosed properties | **23,479** | 29,648 | **23,479** | 29,648 |
| Amount due from subsidiaries | **-** | - | **65,041** | 54,777 |
| Public Low Cost Housing Programme ("PLCHP") | **-** | 23,113 | **-** | 23,113 |
| Loan commitment fees | **-** | 8,740 | **-** | 8,740 |
| Sundry receivables | **16,209** | 12,498 | **12,000** | 8,309 |
| | **549,818** | 532,820 | **100,520** | 124,587 |

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% per annum (2018: 10.50%).

The amount due from subsidiaries is unsecured, bears weighted average effective interest rate of 6.75% per annum (2018: 7.00%) 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 for the Group and the Company by approximately RM89,782,000 (2018: RM103,854,000) without the mitigating effect of collateral held.

Included in prepayments and deposits of the Group and of the Company are rental deposits paid to the Employees Provident Fund ("EPF"), the ultimate holding body, amounting to RM96,524 (2018: RM96,524).

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

**12. Statutory deposits with Bank Negara Malaysia**

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which are determined as set percentages of total eligible liabilities.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 13. Investments in subsidiaries

| | Company | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Unquoted shares at cost | **5,369,988** | 4,835,988 |
| Less: Accumulated impairment losses | **(79,660)** | (79,660) |
| | **5,290,328** | 4,756,328 |

Movements in the cost of investments are as follows:

| | Company | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Balance as at 1 January | **4,835,988** | 102,443 |
| Issuance of shares to MBSB Bank Berhad (Note 55(i)) | **534,000** | - |
| Acquisition of MBSB Bank Berhad | **-** | 662,993 |
| Net assets transferred to MBSB Bank Berhad | **-** | 4,093,329 |
| Write off of investments in subsidiaries due to disposal | **-** | (22,777) |
| | **5,369,988** | 4,835,988 |

Movements of allowance for impairment is as follows:

| | Company | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Balance as at 1 January | **79,660** | 95,046 |
| Write off of impairment due to disposal | **-** | (15,386) |
| Balance as at 31 December | **79,660** | 79,660 |

**13. Investments in subsidiaries (cont'd.)**

Details of the subsidiaries are as follows:

| Name of subsidiaries | Effective interest held (%) 2019 | 2018 | Principal activities |
|---|---|---|---|
| MBSB Bank Berhad | **100** | 100 | Islamic banking and related financial services |
| MBSB Properties Sdn. Bhd. | **100** | 100 | Leasing of real property |
| MBSB Development Sdn. Bhd. | **100** | 100 | Property development |
| Prudent Legacy Sdn. Bhd. #& | **92** | 92 | Property development |
| Sigmaprise Sdn. Bhd. | **100** | 100 | Hotel operations |
| MBSB Project Management Sdn. Bhd. | **100** | 100 | Ceased operations |
| Definite Pure Sdn. Bhd. # | **100** | 100 | Property development |
| Malaya Borneo Building Society Limited ("MBBS") *# | **100** | 100 | Trading operation |
| Farawide Sdn. Bhd.^^ | **-** | 100 | Hotel operations services |
| Idaman Usahamas Sdn. Bhd. ^ | **100** | 100 | In liquidation |
| Ombak Pesaka Sdn. Bhd. | **100** | 100 | Hotel operations |
| MBSB Tower Sdn. Bhd. | **100** | 100 | Property development |
| Jana Kapital Sdn. Bhd. @ | **100** | 100 | Investment holding |
| 88 Legacy Sdn. Bhd. | **100** | 100 | Property development |

* Audited by a firm of auditor other than KPMG PLT
\# Dormant entity
^^ Disposed during the year
^ In liquidation and did not give rise to significant impact to the results of the Group and the Company
@ Subsidiary of MBSB Bank Berhad
& Subsidiary of MBSB Development Sdn Bhd

All the above subsidiaries were incorporated in Malaysia except for MBBS which was incorporated in Singapore.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 14. Investments in joint venture

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Unquoted share capital at cost | **16,222** | 16,222 |
| Less: Share of loss | **(16,222)** | (16,222) |
| | **-** | - |

MBSB Bank Berhad invested RM16,222,000 (2018: RM16,222,000) in participating shares of Safeena (L) Ltd, a 50% equity interest in a jointly controlled entity with AmanahRaya Investment Bank Ltd. The joint venture was incorporated in the Federal Territory of Labuan, Malaysia under the Labuan Companies Act, 1990. The principal activity of Safeena (L) Ltd is the provision of funding for marine vessels.

(i) Management shares

The management shares carry the right to vote on any matter which is required under the Labuan Companies Act, 1990, and the right to return of capital paid-up on the management shares (after the return of capital paid-up on the participating shares) and rights to dividend or to share in surplus investments remaining after the return of capital paid up on the shares of Safeena (L) Ltd.

(ii) Participating shares

The principal features of the participating shares are as follows:

(a) The participating shares do not confer any rights of entitlements to vote at meetings of Safeena (L) Ltd.

(b) Safeena (L) Ltd may in a management shareholders' meeting declare dividends but no dividend shall exceed the amount recommended by the Board of Directors ("the Board") to be justified by the profits of Safeena (L) Ltd.

(c) The Board may from time to time if they think fit pay such interim dividends on the participating shares as appear to the Board to be justified by the profits of Safeena (L) Ltd.

(d) The Board may, with the affirmative votes of the management shareholders, distribute in kind among shareholders by way of dividend or otherwise any of the assets of Safeena (L) Ltd provided that no distribution be made would amount to a reduction of capital except in a manner allowed by the Offshore Companies Act, 1990.

(e) The rights attracting to the participating shareholders may be varied or abrogated with the consent in writing of the management shareholders provided always that the management shareholders act at all times in the interest of Safeena (L) Ltd.

**14. Investments in joint venture (cont'd.)**

(ii) Participating shares (cont'd.)

The principal features of the participating shares are as follows (cont'd.):

(f) The participating shareholders do not have the right to require the redemption of any of their participating shares.

(g) The investments available for distribution amongst the shareholders shall be applied *pari passu* on the return paid-up capital on management shares and participating shares.

(h) Any surplus investments of Safeena (L) Ltd shall be distributed *pari passu* amongst the participating shareholders and the Investment Advisors as performance fees in accordance with the provisions of the Investment Advisory Services Agreement.

**15. Inventories**

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| At cost: | | |
| Hotel inventories | **12** | 269 |
| At net realisable value: | | |
| Freehold land held for sale | **102,163** | 102,163 |
| Total inventories | **102,175** | 102,432 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 16. Property and equipment

| Group | 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 | Building in progress RM'000 | Work in progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 1 January 2019 | 6,217 | 103,351 | 38,005 | 34,704 | 914 | 54,066 | 227,323 | 2,587 | 467,167 |
| Additions | - | - | 5,398 | 1,344 | 317 | 5,037 | 50,145 | - | 62,241 |
| Reclassification | - | - | - | - | - | 1,383 | - | (1,383) | - |
| Write off | - | - | (6) | (2,515) | - | (866) | - | - | (3,387) |
| Disposals | - | (66,374) | (2,798) | (14,200) | (251) | (356) | - | - | (83,979) |
| Reversal | - | - | (41) | (28) | - | - | - | (1,204) | (1,273) |
| At 31 December 2019 | 6,217 | 36,977 | 40,558 | 19,305 | 980 | 59,264 | 277,468 | - | 440,769 |
| **Accumulated depreciation and impairment losses** | | | | | | | | | |
| At 1 January 2019: | | | | | | | | | |
| Accumulated depreciation | - | 23,609 | 37,372 | 33,643 | 913 | 39,405 | - | - | 134,942 |
| Accumulated impairment losses | 371 | 34,287 | - | - | - | - | - | - | 34,658 |
| | 371 | 57,896 | 37,372 | 33,643 | 913 | 39,405 | - | - | 169,600 |
| Depreciation charge for the year (Note 37) | - | 2,241 | 1,216 | 799 | 67 | 4,282 | - | - | 8,605 |
| Write off | - | - | (6) | (2,515) | - | (866) | - | - | (3,387) |
| Disposals | - | (30,527) | (2,734) | (14,152) | (249) | (351) | - | - | (48,013) |
| At 31 December 2019 | 371 | 29,610 | 35,848 | 17,775 | 731 | 42,470 | - | - | 126,805 |
| Analysed as: | | | | | | | | | |
| Accumulated depreciation | - | (4,677) | 35,848 | 17,775 | 731 | 42,470 | - | - | 92,147 |
| Accumulated impairment losses | 371 | 34,287 | - | - | - | - | - | - | 34,658 |
| | 371 | 29,610 | 35,848 | 17,775 | 731 | 42,470 | - | - | 126,805 |
| **Net book value** | | | | | | | | | |
| At 31 December 2019 | 5,846 | 7,367 | 4,710 | 1,530 | 249 | 16,794 | 277,468 | - | 313,964 |

## 16. Property and equipment (cont'd.)

| Group | 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 | Building in progress RM'000 | Work in progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 1 January 2018 | 6,217 | 103,718 | 31,338 | 31,816 | 832 | 36,598 | 107,195 | - | 317,714 |
| Addition from acquisition of MBSB Bank Berhad | - | - | 5,315 | 1,799 | 87 | 5,742 | - | - | 12,943 |
| Additions | - | - | 1,352 | 1,115 | - | 9,214 | 120,128 | 5,133 | 136,942 |
| Reclassification | - | - | - | - | - | 2,546 | - | (2,546) | - |
| Disposals | - | (367) | - | (26) | (5) | (34) | - | - | (432) |
| At 31 December 2018 | 6,217 | 103,351 | 38,005 | 34,704 | 914 | 54,066 | 227,323 | 2,587 | 467,167 |
| **Accumulated depreciation and impairment losses** | | | | | | | | | |
| At 1 January 2018: | | | | | | | | | |
| Accumulated depreciation | - | 20,721 | 29,875 | 30,559 | 832 | 32,565 | - | - | 114,552 |
| Accumulated impairment losses | 371 | 34,287 | - | - | - | - | - | - | 34,658 |
| | 371 | 55,008 | 29,875 | 30,559 | 832 | 32,565 | - | - | 149,210 |
| Addition from acquisition of MBSB Bank Berhad | - | - | 5,315 | 1,730 | 86 | 4,870 | - | - | 12,001 |
| Depreciation charge for the year (Note 37) | - | 3,078 | 2,182 | 1,377 | - | 1,978 | - | - | 8,615 |
| Disposals | - | (190) | - | (23) | (5) | (8) | - | - | (226) |
| At 31 December 2018 | 371 | 57,896 | 37,372 | 33,643 | 913 | 39,405 | - | - | 169,600 |
| Analysed as: | | | | | | | | | |
| Accumulated depreciation | - | 23,609 | 37,372 | 33,643 | 913 | 39,405 | - | - | 134,942 |
| Accumulated impairment losses | 371 | 34,287 | - | - | - | - | - | - | 34,658 |
| | 371 | 57,896 | 37,372 | 33,643 | 913 | 39,405 | - | - | 169,600 |
| **Net book value** | | | | | | | | | |
| At 31 December 2018 | 5,846 | 45,455 | 633 | 1,061 | 1 | 14,661 | 227,323 | 2,587 | 297,567 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 16. Property 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 2019/ 31 December 2019 | **9,968** | **18,579** | **-** | **-** | **-** | **-** | **28,547** |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2019 | **-** | **3,716** | **-** | **-** | **-** | **-** | **3,716** |
| Depreciation charge for the year (Note 37) | **-** | **464** | **-** | **-** | **-** | **-** | **464** |
| At 31 December 2019 | **-** | **4,180** | **-** | **-** | **-** | **-** | **4,180** |
| **Net book value** | | | | | | | |
| At 31 December 2019 | **9,968** | **14,399** | **-** | **-** | **-** | **-** | **24,367** |

| 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 2018 | 9,968 | 18,946 | 24,156 | 17,458 | 580 | 35,600 | 106,708 |
| Additions | - | - | 201 | 134 | - | 1,401 | 1,736 |
| Disposals | - | (367) | - | (1) | (2) | (32) | (402) |
| Vested to MBSB Bank Berhad | - | - | (24,357) | (17,591) | (578) | (36,969) | (79,495) |
| At 31 December 2018 | 9,968 | 18,579 | - | - | - | - | 28,547 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2018 | - | 3,436 | 21,173 | 15,734 | 484 | 31,785 | 72,612 |
| Depreciation charge for the year (Note 37) | - | 471 | 658 | 330 | 18 | 327 | 1,804 |
| Disposals | - | (191) | - | (4) | - | (9) | (204) |
| Vested to MBSB Bank Berhad | - | - | (21,831) | (16,060) | (502) | (32,103) | (70,496) |
| At 31 December 2018 | - | 3,716 | - | - | - | - | 3,716 |
| **Net book value** | | | | | | | |
| At 31 December 2018 | 9,968 | 14,863 | - | - | - | - | 24,831 |

**16. Property and equipment (cont'd.)**

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Pending subdivision of titles | **-** | 754 | **-** | 184 |

**17. Right-of-use assets and lease liabilities**

**(a) Right-of-use assets**

| | Group |
|---|---|
| | **2019** |
| | **RM'000** |
| **Cost** | |
| At 1 January 2019 | **-** |
| Effects of adoption of MFRS 16 | **11,588** |
| Additions | **6,010** |
| At 31 December 2019 | **17,598** |
| | |
| **Accumulated depreciation** | |
| At 1 January 2019 | **-** |
| Depreciation for the period (Note 37) | **8,814** |
| At 31 December 2019 | **8,814** |
| | **8,784** |

Leases of the Group are mainly contracts of leases with lease periods between one year and five years.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**17. Right-of-use assets and lease liabilities (cont'd.)**

**(b) Lease liabilities**

| | Group 2019 RM'000 |
|---|---|
| **Current** | |
| Lease liabilities | **3,639** |
| | |
| **Non-current** | |
| Lease liabilities | **5,280** |
| | **8,919** |

The movement of lease liabilities during the financial year is as follows:

| | Group 2019 RM'000 |
|---|---|
| At 1 January 2019 | **-** |
| Effects of adoption of MFRS 16 | **11,588** |
| Additions | **6,010** |
| Profit expense on leases | **465** |
| Lease payments | **(9,144)** |
| At 31 December 2019 | **8,919** |

The following table explains the difference between operating lease commitments disclosed applying MFRS 117 at 31 December 2018, and lease liabilities recognised in the statement of financial position at 1 January 2019.

| **Group** | **RM'000** |
|---|---|
| Operating lease commitments at 31 December disclosed in the financial statements | **10,493** |
| Less: Discounted using the incremental borrowing rate at 1 January 2019 | **(358)** |
| Add: Lease liabilities recognised at 31 December 2018 | **1,466** |
| Less: Recognition exemption for short-term leases | **(13)** |
| Lease liability recognised at 1 January 2019 | **11,588** |

**18. Intangible assets**

| **Group** | **Software license RM'000** | **Work in Progress RM'000** | **Provisional goodwill RM'000** | **Banking license RM'000** | **Core deposits RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2019 | **183,141** | **28,131** | **188,790** | **-** | **-** | **400,062** |
| Additions | **34,121** | **-** | **-** | **-** | **-** | **34,121** |
| Reallocation of provisional goodwill | **-** | **-** | **(53,631)** | **47,415** | **6,216** | **-** |
| Reallocated to deferred tax liabilities (Note 22) | **-** | **-** | **12,872** | **-** | **-** | **12,872** |
| Reclassification to goodwill (Note 19) | **-** | **-** | **(148,031)** | **-** | **-** | **(148,031)** |
| Reclassification to software license | **990** | **(990)** | **-** | **-** | **-** | **-** |
| Disposal | **(223)** | **-** | **-** | **-** | **-** | **(223)** |
| Reversal | **(552)** | **(489)** | **-** | **-** | **-** | **(1,041)** |
| At 31 December 2019 | **217,477** | **26,652** | **-** | **47,415** | **6,216** | **297,760** |
| **Accumulated amortisation** | | | | | | |
| At 1 January 2019 | **106,550** | **-** | **-** | **-** | **-** | **106,550** |
| Amortisation charge for the year (Note 37) | **22,224** | **-** | **-** | **-** | **1,986** | **24,210** |
| Disposals | **(209)** | **-** | **-** | **-** | **-** | **(209)** |
| At 31 December 2019 | **128,565** | **-** | **-** | **-** | **1,986** | **130,551** |
| **Net book value** | | | | | | |
| At 31 December 2019 | **88,912** | **26,652** | **-** | **47,415** | **4,230** | **167,209** |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 18. Intangible assets (cont'd.)

| Group | Software license RM'000 | Work in Progress RM'000 | Provisional goodwill RM'000 | Banking license RM'000 | Core deposits RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2018 | 88,099 | - | - | - | - | 88,099 |
| Arising from acquisition of MBSB Bank Berhad | - | - | 188,790 | - | - | 188,790 |
| Addition from acquisition of MBSB Bank Berhad | 23,276 | - | - | - | - | 23,276 |
| Additions | 71,767 | 28,131 | - | - | - | 99,898 |
| At 31 December 2018 | 183,142 | 28,131 | 188,790 | - | - | 400,063 |
| **Accumulated amortisation** | | | | | | |
| At 1 January 2018 | 73,466 | - | - | - | - | 73,466 |
| Addition from acquisition of MBSB Bank Berhad | 21,701 | - | - | - | - | 21,701 |
| Amortisation for the year | 11,383 | - | - | - | - | 11,383 |
| At 31 December 2018 | 106,550 | - | - | - | - | 106,550 |
| **Net book value** | | | | | | |
| At 31 December 2018 | 76,592 | 28,131 | 188,790 | - | - | 293,513 |

## 18. Intangible assets (cont'd.)

| Company | Software license RM'000 |
|---|---|
| **Cost** | |
| At 1 January 2018 | 87,641 |
| Additions | 11,509 |
| Vested to MBSB Bank Berhad | (99,150) |
| At 31 December 2018 | - |
| | |
| **Accumulated amortisation** | |
| At 1 January 2018 | 73,053 |
| Amortisation for the year (Note 37) | 1,731 |
| Vested to MBSB Bank Berhad | (74,784) |
| At 31 December 2018 | - |
| | |
| **Net book value** | |
| At 31 December 2018 | - |

The Company did not acquire nor dispose of any intangible assets during the year 2019.

## 19. Goodwill

| | Group 2019 RM'000 |
|---|---|
| At 1 January 2019 | **-** |
| Reclassed from intangible assets (Note 18) | **148,031** |
| At 31 December 2019 | **148,031** |

The aggregate carrying amounts of goodwill allocated for each unit are as follows:

| | |
|---|---|
| Corporate Banking | **146,256** |
| Retail Banking | **1,775** |
| | **148,031** |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**19. Goodwill (cont'd.)**

Goodwill arose from the finalisation of purchase price allocation of MBSB Bank Berhad which was acquired in February 2018 (Note 54). There is no impairment to goodwill since acquisition.

**Impairment testing for cash-generating unit containing goodwill**

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represents the lowest level within the Group at which the goodwill is monitored for internal mangement purposes.

The recoverable amount of cash-generating units ("CGU") is determined based on the value in-use ("VIU") calculations. These calculations use pre-tax cash flow projections based on the 2020 financial budgets approved by the Board of Directors, projected for 3 years. Cash flows beyond the 3 years period are extrapolated using the estimated terminal growth rates and discounted using pre-tax discount rates which reflect the specific risks relating to the CGU. The cash flow projections are derived based on a number of key factors including the past performance and management's expectation of market developments.

The estimated terminal growth rates and discount rates used for VIU calculations are as follows:

| | Terminal Growth rate | Pre-tax Discount rate |
|---|---|---|
| Corporate Banking | 3.2% | 7.4% |
| Retail Banking | 3.2% | 7.5% |

The estimated recoverable amounts significantly exceeds that carrying amount of the cash-generating units containing goodwill. Management considers that it is not reasonably possible for the terminal growth rate and pre-tax discount to change so significantly as to eliminate this excess.

## 20. Investment properties

| | Group 2019 RM'000 | Group 2018 RM'000 |
|---|---|---|
| **At cost** | | |
| Freehold land | | |
| At 1 January | **874** | 874 |
| Accumulated impairment loss | **(54)** | (54) |
| At 31 December | **820** | 820 |
| **Fair Value** | | |
| At 1 January | **820** | 820 |
| At 31 December | **820** | 820 |

The investment property is a freehold land of RM820,000 (2018: RM820,000) categorised under Level 3 fair value derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 21. Land use rights

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| **Cost** | | |
| At 1 January | **8,428** | 8,428 |
| Disposal | **(7,275)** | - |
| At 31 December | **1,153** | 8,428 |
| | | |
| **Accumulated amortisation** | | |
| At 1 January | **3,166** | 3,005 |
| Amortisation for the year (Note 37) | **91** | 161 |
| Disposal | **(2,625)** | - |
| At 31 December | **632** | 3,166 |
| | | |
| **Net carrying amount** | **521** | 5,262 |
| | | |
| Amount to be amortised: | | |
| Within one year | **91** | 161 |
| One year to five years | **364** | 644 |
| Over five years | **66** | 4,457 |
| | **521** | 5,262 |

Land use rights of the Group are leasehold land for some of the office branches.

Leasehold land is amortised over the period of the respective lease which range from 33 to 62 years (2018: 34 to 63 years) and have been pledged to the holding company.

**22. Deferred tax (assets)/liabilities**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| At 1 January | **25,802** | (21,203) | **(15,687)** | (21,187) |
| Acquisition of MBSB Bank | **-** | (657) | **-** | - |
| Reallocated from intangible asset (Note 18) | **12,872** | - | **-** | - |
| Recognised in profit or loss (Note 41) | **14,126** | 44,294 | **6,102** | 5,500 |
| Recognised in other comprehensive income (Note 41) | **45,589** | 3,368 | **-** | - |
| At 31 December | **98,389** | 25,802 | **(9,585)** | (15,687) |
| | | | | |
| Presented, after appropriate offsetting, as follows: | | | | |
| Deferred tax liabilities | **126,607** | 60,120 | **-** | - |
| Deferred tax assets | **(28,218)** | (34,318) | **(9,585)** | (15,687) |
| | **98,389** | 25,802 | **(9,585)** | (15,687) |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**22. Deferred tax (assets)/liabilities**

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

| Group | Provision RM'000 | Accelerated capital allowances RM'000 | Fair value reserve of finanical investments at FVOCI RM'000 | Impairment allowances RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Adjusted 1 January 2018 | (100,599) | (1,166) | - | - | - | (101,765) |
| Reclassification to tax recoverable | 70,406 | - | - | - | - | 70,406 |
| Opening balance of MBSB Bank acquired on 2 February 2018 | (936) | 266 | 13 | - | - | (657) |
| Recognised in profit or loss | (2,702) | 400 | - | - | - | (2,302) |
| At 1 January 2019 | (33,831) | (500) | 13 | - | - | (34,318) |
| Recognised in profit or loss | - | - | - | 4,170 | 1,930 | 6,100 |
| At 31 December 2019 | (33,831) | (500) | 13 | 4,170 | 1,930 | (28,218) |
| | | | | | | |
| **Deferred tax liabilities** | | | | | | |
| At 1 January 2018 | - | 5,140 | - | - | 5,016 | 10,156 |
| Recognised in profit or loss | - | 7,072 | - | 41,234 | (1,710) | 46,596 |
| Recognised in other comprehensive income | - | - | 3,368 | - | - | 3,368 |
| At 1 January 2019 | **-** | **12,212** | **3,368** | **41,234** | **3,306** | **60,120** |
| Reallocated from intangible assets | **-** | **-** | **-** | **-** | **12,872** | **12,872** |
| Recognised in profit or loss | **-** | **7,510** | **-** | **1,656** | **(1,140)** | **8,026** |
| Recognised in other comprehensive income | **-** | **-** | **45,589** | **-** | **-** | **45,589** |
| At 31 December 2019 | **-** | **19,722** | **48,957** | **42,890** | **15,038** | **126,607** |

**22. Deferred tax (assets)/liabilities (cont'd.)**

| **Company** | **Provision RM'000** | **Accelerated capital allowances RM'000** | **Fair value reserve of finanical investments at FVOCI RM'000** | **Impairment allowances RM'000** | **Others RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| At 1 January 2018 | (26,767) | (1,167) | - | - | - | (27,934) |
| Effect of adoption of MFRS 9 | (65,253) | - | - | - | - | (65,253) |
| Adjusted 1 January 2018 | (92,020) | (1,167) | - | - | - | (93,187) |
| Reclassified to tax recoverable | 65,253 | - | - | - | - | 65,253 |
| Recognised in profit or loss | 11,146 | 1,101 | - | - | - | 12,247 |
| At 1 January 2019 | **(15,621)** | **(66)** | **-** | **-** | **-** | **(15,687)** |
| Recognised in profit or loss (Note 41) | **-** | **-** | **-** | **4,170** | **1,932** | **6,102** |
| At 31 December 2019 | **(15,621)** | **(66)** | **-** | **4,170** | **1,932** | **(9,585)** |
| | | | | | | |
| **Deferred tax liabilities** | | | | | | |
| At 1 January 2018 | - | 5,140 | - | - | 1,607 | 6,747 |
| Recognised in profit or loss | - | (5,140) | - | - | (1,607) | (6,747) |
| At 1 January 2019 | **-** | **-** | **-** | **-** | **-** | **-** |
| Recognised in profit or loss | **-** | **-** | **-** | **-** | **-** | **-** |
| At 31 December 2019 | **-** | **-** | **-** | **-** | **-** | **-** |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 22. Deferred tax (assets)/liabilities (cont'd.)

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Unutilised tax losses | **153,885** | 165,445 | **-** | - |
| Unabsorbed capital allowances | **50,426** | 49,722 | **-** | - |
| Provision for doubtful debts | **45,518** | 37,444 | **-** | - |
| Others | **3,759** | 6,995 | **-** | 4,082 |

The unutilised tax losses of the Group are available for offsetting against future taxable profits of the respective entities within the Group for another 7 consecutive years effective from Year of Assessment 2019. The unabsorbed capital allowances of the Group are not subject to 7 year limitation period and available indefinitely for offsetting against future taxable profits of the respective entities within the Group.

This utilisation of carry forward of tax losses and allowances are also subject to no substantial change in shareholdings of those entities under Income Tax Act, 1967 and guidelines issued by the tax authority.

## 23. Deposits from customers

### (i) By type of deposit:

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Commodity Murabahah Term Deposit | **24,738,093** | 23,907,371 |
| Demand deposits | **192,381** | 225,520 |
| Savings deposits | **341,477** | 76,558 |
| | **25,271,951** | 24,209,449 |

**23. Deposits from customers (cont'd.)**

**(ii) Maturity of deposits from customers:**

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Due within six months | **16,480,775** | 17,474,783 |
| More than six months to one year | **5,426,032** | 4,818,107 |
| More than one year to three years | **1,891,341** | 723,813 |
| More than three years | **939,945** | 1,192,746 |
| | **24,738,093** | 24,209,449 |

**(iii) By type of customers:**

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Government and statutory bodies | **12,696,568** | 14,746,960 |
| Business enterprises | **7,229,721** | 6,371,297 |
| Individuals | **5,345,662** | 3,091,192 |
| | **25,271,951** | 24,209,449 |

**(iv) By type of contract:**

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Tawarruq | **25,271,951** | 24,209,449 |
| | **25,271,951** | 24,209,449 |

# Notes To The Financial Statements
For the Financial Year Ended 31 December 2019 (cont'd.)

**24. Deposits and placements of banks and other financial institutions**

**(i) By type of deposit:**

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Non-Mudharabah Funds: | | |
| Other financial institutions: | | |
| - Licensed investment banks | **152,390** | - |
| - Licensed Islamic banks | **112,937** | - |
| - Other financial institutions | **10,356,442** | 8,578,851 |
| | **10,621,769** | 8,578,851 |

**(ii) By type of contract:**

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Tawarruq | **10,621,769** | 8,578,851 |
| | **10,621,769** | 8,578,851 |

**25. Trade payables**

Trade payables are unsecured and non-interest bearing. The normal trade credit terms granted to the Group range from 30 to 60 days (2018: 30 to 60 days).

**26. Other payables**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Amount due to MBSB Bank | **-** | - | **78,416** | 98,666 |
| Sundry creditors | **319,544** | 278,232 | **60,920** | 80,560 |
| Al-Mudharabah security funds | **137,309** | 123,401 | **-** | - |
| Expected credit losses for commitments and contingencies (i) | **70,680** | 100,412 | **5,441** | 6,469 |
| Deferred income | **38,362** | 43,275 | **3,524** | 30,625 |
| Other provisions and accruals | **76,383** | 105,447 | **6,183** | 23,349 |
| | **642,278** | 650,767 | **154,484** | 239,669 |

The amount due to MBSB Bank is unsecured, interest-free and is repayable on demand.

**(i) Expected credit losses for commitments and contingencies**

Movement of expected credit losses for commitments and contingencies are as follows:

| | Group | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| ECL at 1 January 2019 | **53,130** | **36,829** | **10,453** | **100,412** |
| Charge to profit or loss (Note 40) | **(8,934)** | **(18,851)** | **(1,947)** | **(29,732)** |
| Changes in the impairment allowance | | | | |
| - Transfer to stage 1 | **4,940** | **(2,357)** | **(2,583)** | **-** |
| - Transfer to stage 2 | **(4,914)** | **5,263** | **(349)** | **-** |
| - Transfer to stage 3 | **(798)** | **(4,814)** | **5,612** | **-** |
| New financing/disbursement during the year | **25,153** | **1,791** | **426** | **27,370** |
| Derecognised/converted to loans/financing during the period (other than write-offs) | **(12,511)** | **(6,126)** | **(815)** | **(19,452)** |
| Changes in credit risk parameters | **(14,394)** | **(4,718)** | **(3,203)** | **(22,315)** |
| Changes to model assumptions and methodologies^ | **(6,410)** | **(7,890)** | **(1,035)** | **(15,355)** |
| ECL as at 31 December 2019 | **44,196** | **17,978** | **8,506** | **70,680** |

^ The changes to model assumptions and methodologies were in relation to incorporation of additional macroeconomic variables ("MEV") to account for potential impact from various external factors and incorporation of cure rates to the loss given default ("LGD") model.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**26. Other payables (cont'd.)**

**(i) Expected credit losses for commitments and contingencies (cont'd.)**

Movement of expected credit losses for commitments and contingencies are as follows (cont'd.):

| | Group | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| ECL upon adoption of MFRS 9 as at 1 January 2018 | 98,697 | 85,730 | 12,459 | 196,886 |
| Addition from acquisition of MBSB Bank | 4,846 | 885 | - | 5,731 |
| Charge to profit or loss (Note 40) | (50,413) | (49,786) | (2,006) | (102,205) |
| Changes in the impairment allowance | | | | |
| - Transfer to stage 1 | 5,105 | (5,105) | - | - |
| - Transfer to stage 2 | (40,251) | 40,280 | (29) | - |
| - Transfer to stage 3 | (3,214) | (1,178) | 4,392 | - |
| New financing/disbursement during the year | 33,007 | 7,107 | 203 | 40,317 |
| Derecognised/converted to loans/financing during the period (other than write-offs) | (33,670) | (45,119) | (5,550) | (84,339) |
| Changes in credit risk parameters | (11,390) | (45,771) | (1,022) | (58,183) |
| ECL as at 31 December 2018 | 53,130 | 36,829 | 10,453 | 100,412 |

**26. Other payables (cont'd.)**

**(i) Expected credit losses for commitments and contingencies (cont'd.)**

Movement of expected credit losses for commitments and contingencies are as follows (cont'd.):

| | Company | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| ECL as at 1 January 2019 | **413** | **198** | **5,858** | **6,469** |
| Charge to profit or loss (Note 40) | **(162)** | **(22)** | **(844)** | **(1,028)** |
| Changes in the impairment allowance | | | | |
| - Transfer to stage 1 | **86** | **(7)** | **(79)** | **-** |
| - Transfer to stage 2 | **(24)** | **73** | **(49)** | **-** |
| - Transfer to stage 3 | **(7)** | **(12)** | **19** | **-** |
| Derecognised/converted to loans/financing during the period | **(51)** | **(63)** | **(194)** | **(308)** |
| Changes in credit risk parameters | **(114)** | **29** | **23** | **(62)** |
| Changes to model assumptions and methodologies^ | **(52)** | **(42)** | **(564)** | **(658)** |
| ECL as at 31 December 2019 | **251** | **176** | **5,014** | **5,441** |

| | Company | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| ECL upon adoption of MFRS 9 as at 1 January 2018 | 98,697 | 85,730 | 12,459 | 196,886 |
| Vesting of assets to MBSB Bank | (69,751) | (35,157) | (1,515) | (106,423) |
| - commitment from financing | (69,751) | (35,157) | (1,498) | (106,406) |
| - commitment from asset held-for-sale (AHS) | - | - | (17) | (17) |
| Charge to profit or loss (Note 40) | (28,533) | (50,375) | (5,086) | (83,994) |
| Changes in the impairment allowance | | | | |
| - Transfer to stage 1 | 4,888 | (4,888) | - | - |
| - Transfer to stage 2 | (11,574) | 11,602 | (28) | - |
| - Transfer to stage 3 | (206) | (678) | 884 | - |
| New financing/disbursement during the year | 11,810 | 1,333 | - | 13,143 |
| Derecognised/converted to loans/financing during the period (other than write-offs) | (11,139) | (24,324) | (4,932) | (40,395) |
| Changes in credit risk parameters | (22,312) | (33,420) | (1,010) | (56,742) |
| ECL as at 31 December 2018 | 413 | 198 | 5,858 | 6,469 |

^ The changes to model assumptions and methodologies were in relation to incorporation of additional macroeconomic variables ("MEV") to account for potential impact from various external factors and incorporation of cure rates to the loss given default ("LGD") model.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 27. Recourse obligation on financing sold

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Repayments due within 12 months | **100,857** | 593,853 |
| Repayments due after 12 months | **2,380,394** | 1,541,665 |
| | **2,481,251** | 2,135,518 |

These amounts relate to proceeds received from the sale of Islamic house financing to Cagamas Berhad with recourse to MBSB Bank Berhad ("MBSB Bank"), subsidiary of the Company. Under the agreement, MBSB Bank undertakes to administer the financing on behalf of Cagamas Berhad and to buy back any financing which are regarded as defective based on a set of pre-determined criteria. In November 2014, the Group started its first sale of financing portfolios with recourse directly to Cagamas Berhad without participation of intermediary banks.

The recourse obligation on financing sold facilities granted by Cagamas Berhad are secured on a portfolio of property islamic financing amounting to RM2,608,415,000 (2018: RM2,042,743,000) as disclosed in Note 9.

## 28. Sukuk - MBSB Structured Covered ("SC") Murabahah

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Sukuk - MBSB SC Murabahah | **1,664,973** | 1,968,075 |
| Maturity of Sukuk - MBSB SC Murabahah: | | |
| Within one year | **294,973** | 308,864 |
| More than one year | **1,370,000** | 1,659,211 |
| | **1,664,973** | 1,968,075 |

**28. Sukuk - MBSB Structured Covered ("SC") Murabahah (cont'd.)**

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

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

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

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

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

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

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

As at 31 December 2019, the carrying amount of Financing Receivables identified to back the outstanding Sukuk MBSB SC-Murabahah amounted to RM2,274,991,000 (2018: RM2,584,123,000) as disclosed in Note 9.

**29. Sukuk Wakalah**

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Sukuk Wakalah | **1,293,075** | - |
| | | |
| Maturity of Sukuk Wakalah: | | |
| Within one year | **2,201** | - |
| More than one year | **1,290,874** | - |
| | **1,293,075** | - |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**29. Sukuk Wakalah (cont'd.)**

MBSB Bank's Sukuk Wakalah Programme of up to RM10.0 billion nominal value was approved by Bank Negara Malaysia and endorsed by the Securities Commission in November 2019. The Sukuk Wakalah Programme comprises:

(i) Senior Sukuk Wakalah, and/or

(ii) Tier-2 Sukuk Wakalah, and/or

(iii) Additional Tier-1 Sukuk Wakalah

In December 2019, MBSB Bank issued Tier-2 Sukuk Wakalah in nominal value of RM1.3 billion, comprising RM650 million at 5.05% p.a. and RM650 million at 5.25% p.a. The salient terms of the Tier-2 Sukuk Wakalah are as follows:

(i) subject to call option, with minimum tenure of at least 5 years

(ii) not pledged to any security

(iii) non-convertible

**30. Ordinary share capital**

| | Number of Shares | | Amount | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **Units'000** | **Units'000** | **Units'000** | **Units'000** |
| Ordinary shares Issued and fully paid: | | | | |
| At 1 January | **6,389,101** | 5,924,425 | **6,682,102** | 6,172,051 |
| Issued during the year: | | | | |
| Issue of ordinary shares pursuant to Dividend Reinvestment Plan ("DRP") | **324,300** | 239,168 | **259,440** | 243,952 |
| Issuance of ordinary shares pursuant to acquisition of MBSB Bank Berhad | **-** | 225,508 | **-** | 266,099 |
| At 31 December | **6,713,401** | 6,389,101 | **6,941,542** | 6,682,102 |

**30. Ordinary share capital (cont'd.)**

**(a)** During the year, the issued and paid up capital of the company was increased from RM6,682,101,791 to RM6,941,542,045 via the issuance of 324,300,318 shares at 80 sen per share amounting to RM259,440,254 arising from the DRP as disclosed in Note 43. The new ordinary shares rank *pari passu* in all respects with the existing ordinary shares of the Company.

**(b) Employee Share Option Scheme ("ESOS")**

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

The salient features of the ESOS are as follows:

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

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

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

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

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

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**30. Ordinary share capital (cont'd.)**

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

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

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

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

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

(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 September 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 March 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 November 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 on 9 March 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.

**30. Ordinary share capital (cont'd.)**

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

**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 and Company | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Units'000 | WAEP (RM) | Units'000 | WAEP (RM) |
| Outstanding at 1 January | **25,101** | - | **25,910** | - |
| Lapsed during the year | **(906)** | 1.43 | **(809)** | 1.46 |
| Outstanding at 31 December | **24,195** | 1.44 | **25,101** | 1.44 |
| Exercisable at 31 December | **24,195** | 1.44 | **25,101** | 1.44 |

- The weighted average fair value of options during the financial year was RM0.31 (2018: RM0.31).

- The weighted average exercise price for options outstanding at the end of the year was RM1.44 (2018: RM1.44). The weighted average remaining contractual life for these options is 0.60 years (2018: 1.61 years).

**Fair value of ESOS granted**

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

The following table lists the inputs to the model used:

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

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**30. Ordinary share capital (cont'd.)**

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

**Fair value of ESOS granted (cont'd.)**

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.

**31. Reserves**

| **Group** | **Share Option Reserve RM'000 Note (a)** | **Fair value Reserve RM'000 Note (b)** | **Total RM'000** |
|---|---|---|---|
| At 1 January 2019 | **6,261** | **10,612** | **16,873** |
| Other comprehensive income for the year | **-** | **144,382** | **144,382** |
| Transfer of share option reserve to retained profits upon expiry of share options | **(418)** | **-** | **(418)** |
| At 31 December 2019 | **5,843** | **154,994** | **160,837** |
| | | | |
| At 1 January 2018 | 6,261 | (6,656) | (395) |
| Other comprehensive income for the year | - | 17,268 | 17,268 |
| At 31 December 2018 | 6,261 | 10,612 | 16,873 |

**31. Reserves (cont'd.)**

| Company | Share Option Reserve RM'000 Note (a) | Fair value Reserve RM'000 Note (b) | Total RM'000 |
|---|---|---|---|
| At 1 January 2019 | **6,261** | **-** | **6,261** |
| Transfer of share option reserve to retained profits upon expiry of share options | **(418)** | **-** | **(418)** |
| At 31 December 2019 | **5,843** | **-** | **5,843** |
| | | | |
| At 1 January 2018 | 6,261 | (6,656) | (395) |
| Other comprehensive income for the year | - | 6,656 | 6,656 |
| At 31 December 2018 | 6,261 | - | 6,261 |

(a) 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.

(b) The fair value reserve includes the cumulative net changes in the fair value of financial investments at FVOCI and the expected credit losses arising from financial investments at FVOCI, until the financial investments are derecognised.

**32. Revenue**

Revenue of the Company comprises interest/profit income, fee and commission income, financing income and other income.

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.

Comparative revenue has been restated as per Note 57.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**33. Income derived from investment of general investment deposits and Islamic capital funds**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Financing | **2,305,160** | 2,296,125 | **-** | 518,653 |
| Income from financial investments at FVOCI | **322,145** | 153,430 | **-** | 30,096 |
| Income from financial investments at amortised cost | **25,479** | 21,601 | **-** | - |
| Income from financial investments at FVTPL | **272** | - | **-** | - |
| Profit income from Sukuk Commodity Murabahah | **-** | - | **-** | 27,348 |
| Deposits with financial institutions | **121,873** | 133,531 | **-** | 33,247 |
| | **2,774,929** | 2,604,687 | **-** | 609,344 |

Sukuk Commodity Murabahah was vested to MBSB Bank Berhad as part of the transfer of assets and liabilities in April 2018. The Company recorded nil profit income (2018: RM27,348,000) as the Company no longer holds the Sukuk.

**34. Interest income**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Interest income from: | | | | |
| - Loans and advances | **142,694** | 181,908 | **95,846** | 139,642 |
| - Deposits and placements with banks and other financial institutions | **9,261** | 34,888 | **9,261** | 34,888 |
| | **151,955** | 216,796 | **105,107** | 174,530 |

### 35. Interest expense

| | Group and Company | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Deposits from customers, banks and other financial institutions | **-** | 21,396 |
| Others | **20** | 436 |
| | **20** | 21,832 |

### 36. Net other income

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Rental income | **180** | 175 | **6,655** | 11 |
| Revenue from hotel operations | **2,449** | 6,923 | **-** | - |
| Loan related fees | **9,024** | 23,994 | **8,118** | 26,474 |
| Insurance commission | **13,629** | 11,182 | **8** | 2,424 |
| Ta'widh/Penalty | **20,011** | 24,240 | **18,257** | 32,125 |
| Gain/(loss) from sale of financial investments at FVOCI | **58,592** | (6,112) | **-** | (7,649) |
| Gain from sale of financial investments at FVTPL | **1,424** | - | **-** | - |
| Sundry expenses | **(5,086)** | (6,454) | **(2,630)** | (5,099) |
| (Loss)/gain from disposal of: | | | | |
| Property and equipment and land use rights | **(3,938)** | 316 | **-** | 318 |
| Foreclosed properties | **7,109** | (401) | **7,109** | (401) |
| Inventories | **-** | 100 | **-** | 100 |
| Subsidiary | **-** | - | **-** | (2,710) |
| | **103,394** | 53,963 | **37,517** | 45,593 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 37. Other operating expenses

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Personnel expenses (Note 38) | **240,308** | 227,706 | **(3,850)** | 44,439 |
| Establishment related expenses | **67,147** | 52,566 | **1,479** | 9,701 |
| Promotion and marketing related expenses | **13,319** | 7,803 | **-** | 1,764 |
| General administrative expenses | **45,298** | 80,380 | **6,569** | 29,018 |
| Intercompany charges ^ | **-** | - | **37,220** | 23,523 |
| Commission fees | **34,759** | 37,825 | **754** | 12,472 |
| | **400,831** | 406,280 | **42,172** | 120,917 |

^ The intercompany charges of the Company were transactions entered with related entities in Malaysia.

Included in other operating expenses are the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Parent auditors' remuneration: | | | | |
| - Audit | **1,683** | 490 | **346** | 410 |
| - Regulatory related services | **210** | 5 | **10** | 5 |
| - Non-audit fees | **415** | 9,159 | **215** | 5,781 |
| Other auditors' remuneration: | | | | |
| - Audit | **-** | 1,312 | **-** | - |
| - Regulatory related services | **-** | 150 | **-** | - |
| - Non-audit fees | **-** | 158 | **-** | - |
| Professional fees | **15,600** | 101 | **4,236** | - |
| Depreciation: | | | | |
| - property and equipment (Note 16) | **8,605** | 8,615 | **464** | 1,804 |
| Depreciation of right-of-use asset (Note 17(a)) | **8,814** | - | **-** | - |
| Lease profit expenses | **465** | - | **-** | - |
| Amortisation: | | | | |
| - intangible assets (Note 18) | **24,210** | 11,383 | **-** | 1,731 |
| - land use rights (Note 21) | **91** | 161 | **-** | - |
| Rental of buildings | **-** | 8,516 | **-** | 1,768 |
| Directors' remuneration (Note 39) | **3,442** | 3,296 | **1,185** | 1,399 |

## 38. Personnel expenses

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Wages and salaries | **177,846** | 171,582 | **(5,700)** | 31,959 |
| Contributions to Employees Provident Fund | **31,042** | 28,077 | **-** | 5,348 |
| Social security costs | **1,660** | 1,377 | **-** | 290 |
| Directors fees (Note 39) | **3,442** | 3,296 | **1,185** | 1,399 |
| Shariah Committee remuneration | **466** | 416 | **-** | 122 |
| Other staff related expenses | **25,852** | 22,958 | **665** | 5,321 |
| | **240,308** | 227,706 | **(3,850)** | 44,439 |

## 39. Directors' remuneration

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Directors of the Company | | | | |
| Non-Executive: | | | | |
| Fees | **1,815** | 1,876 | **660** | 841 |
| Other emoluments | **1,627** | 1,420 | **525** | 558 |
| | **3,442** | 3,296 | **1,185** | 1,399 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**39. Directors' remuneration (cont'd.)**

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

| | Number of Directors | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | **2019** | **2018** | **2019** | **2018** |
| Non-executive directors: | | | | |
| RM1,000 - RM50,000 | **2** | 7 | **1** | 6 |
| RM50,001 - RM100,000 | **-** | - | **-** | - |
| RM100,001 - RM150,000 | **-** | 1 | **-** | 1 |
| RM150,001 - RM200,000 | **-** | 1 | **-** | - |
| RM200,001 - RM250,000 | **2** | 3 | **1** | 2 |
| RM250,001 - RM300,000 | **3** | 2 | **-** | 1 |
| RM300,001 - RM350,000 | **3** | 2 | **3** | 1 |
| RM350,001 - RM400,000 | **-** | - | **-** | - |
| RM400,001 - RM450,000 | **-** | - | **-** | - |
| RM450,001 - RM500,000 | **-** | 2 | **-** | - |
| RM500,001 - RM550,000 | **1** | - | **-** | - |
| RM550,001 - RM600,000 | **1** | - | **-** | - |

Details of the directors' remuneration of each director during the financial year ended 31 December 2019 are as follows:

| **Group**<br>**31 December 2019**<br>**Directors** | **Director Fees**<br>**RM'000** | **Allowance**<br>**RM'000** | **Total**<br>**RM'000** |
|---|---|---|---|
| 1. Tan Sri Abdul Halim bin Ali | **280** | **260** | **540** |
| 2. Encik Aw Hong Boo | **165** | **163** | **328** |
| 3. Encik Lim Tian Huat | **175** | **153** | **328** |
| 4. Ir. Moslim Othman | **165** | **145** | **310** |
| 5. Encik Sazaliza Zainuddin | **120*** | **98** | **218** |
| 6. Datuk Johar bin Che Mat | **155** | **129** | **284** |
| 7. Puan Lynette Yeow Su Yin | **290** | **278** | **568** |
| 8. Tunku Alina binti Raja Muhd Alias | **140** | **132** | **272** |
| 9. Datuk Azrulnizam bin Abdul Aziz | **120** | **105** | **225** |
| 10. Dr. Loh Leong Hua | **150** | **135** | **285** |
| 11. Encik Kamarulzaman bin Ahmad | **30** | **20** | **50** |
| 12. Puan Zaidatul Mazwin Idrus | **25*** | **9** | **34** |
| | **1,815** | **1,627** | **3,442** |

**39. Directors' remuneration (cont'd.)**

| **Group**<br>**31 December 2018**<br>**Directors** | **Director Fees**<br>**RM'000** | **Allowance**<br>**RM'000** | **Total**<br>**RM'000** |
|---|---|---|---|
| 1. Tan Sri Abdul Halim bin Ali | 273 | 226 | 499 |
| 2. Datuk Shahril Ridza bin Ridzuan | 70* | 37 | 107 |
| 3. Datuk Syed Zaid bin Syed Jaffar Albar | 19 | 13 | 32 |
| 4. Dato' Jasmy bin Ismail | 28 | 22 | 50 |
| 5. Encik Aw Hong Boo | 179 | 158 | 337 |
| 6. Encik Lim Tian Huat | 174 | 88 | 262 |
| 7. Ir. Moslim Othman | 163 | 84 | 247 |
| 8. Encik Sazaliza Zainuddin | 130* | 101 | 231 |
| 9. Datuk Johar bin Che Mat | 168 | 136 | 304 |
| 10. Puan Lynette Yeow Su Yin | 278 | 195 | 473 |
| 11. Tunku Alina binti Raja Muhd Alias | 154 | 130 | 284 |
| 12. Datuk Azrulnizam bin Abdul Aziz | 122 | 111 | 233 |
| 13. Dr. Loh Leong Hua | 92 | 79 | 171 |
| 14. Dato' Dr. Md Khir bin Abdul Rahman | 10 | 15 | 25 |
| 15. Dato' Dr. Vaseehar Hassan bin Abdul Razack | 6 | 10 | 16 |
| 16. Encik Abdul Rahim bin Abdul Hamid | 6 | 9 | 15 |
| 17. Dr. Saleh Jameel Malaikah | 2 | 6 | 8 |
| 18. Encik Zakir Hussain Rizvi | 2 | - | 2 |
| | 1,876 | 1,420 | 3,296 |

| **Company**<br>**31 December 2019** | **Director Fees**<br>**RM'000** | **Allowance**<br>**RM'000** | **Total**<br>**RM'000** |
|---|---|---|---|
| 1. Tan Sri Abdul Halim bin Ali | **140** | **73** | **213** |
| 2. Encik Lim Tian Huat | **175** | **153** | **328** |
| 3. Ir. Moslim Othman | **165** | **145** | **310** |
| 4. Puan Lynette Yeow Su Yin | **155** | **145** | **300** |
| 5. Puan Zaidatul Mazwin Idrus | **25*** | **9** | **34** |
| | **660** | **525** | **1,185** |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**39. Directors' remuneration (cont'd.)**

| **Company**<br>**31 December 2018** | **Director Fees**<br>**RM'000** | **Allowance**<br>**RM'000** | **Total**<br>**RM'000** |
|---|---|---|---|
| 1. Tan Sri Abdul Halim bin Ali | 145 | 169 | 314 |
| 2. Datuk Shahril Ridza bin Ridzuan | 70* | 37 | 107 |
| 3. Datuk Syed Zaid bin Syed Jaffar Albar | 19 | 13 | 32 |
| 4. Dato' Jasmy bin Ismail | 28 | 22 | 50 |
| 5. Encik Aw Hong Boo | 28 | 20 | 48 |
| 6. Encik Lim Tian Huat | 174 | 88 | 262 |
| 7. Ir. Moslim Othman | 163 | 84 | 247 |
| 8. Encik Sazaliza Zainuddin | 20* | 14 | 34 |
| 9. Datuk Johar bin Che Mat | 20 | 16 | 36 |
| 10. Puan Lynette Yeow Su Yin | 154 | 81 | 235 |
| 11. Tunku Alina binti Raja Muhd Alias | 20 | 14 | 34 |
| | 841 | 558 | 1,399 |

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

**40. Net allowance/(writeback) for impairment on loans, financing and advances and other financial assets**

| | | **Group** | | |
|---|---|---|---|---|
| **2019** | **Stage 1**<br>**RM'000** | **Stage 2**<br>**RM'000** | **Stage 3**<br>**RM'000** | **Total**<br>**RM'000** |
| Financial investments at FVOCI (Note 7) | **18** | **-** | **-** | **18** |
| Financial investments at amortised cost (Note 8) | **146** | **-** | **-** | **146** |
| Loans, financing and advances (Note 9(ix)) | **52,915** | **(117,427)** | **157,589** | **93,077** |
| Other receivables | **-** | **-** | **65,538** | **65,538** |
| Financing commitments and financial guarantees (Note 26) | **(8,934)** | **(18,851)** | **(1,947)** | **(29,732)** |
| | **44,145** | **(136,278)** | **221,180** | **129,047** |
| Impaired financing and advances: | | | | |
| - Write off | **-** | **-** | **17,735** | **17,735** |
| - Recovered | **-** | **-** | **(32,325)** | **(32,325)** |
| | **-** | **-** | **(14,590)** | **(14,590)** |
| | **44,145** | **(136,278)** | **206,590** | **114,457** |

**40. Net allowance/(writeback) for impairment on loans, financing and advances and other financial assets (cont'd.)**

| | Group | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| Financial investments at FVOCI (Note 8) | 6 | - | - | 6 |
| Loans, financing and advances (Note 9(ix)) | (167,780) | (160,399) | 500,261 | 172,082 |
| Financial assets held-for-sale | 694 | 1,206 | (6,259) | (4,359) |
| Trade receivables (Note 10) | - | - | (8) | (8) |
| Other receivables | - | - | 45,944 | 45,944 |
| Other payables | - | - | 1,570 | 1,570 |
| Financing commitments and financial guarantees (Note 26(i)) | (50,413) | (49,786) | (2,006) | (102,205) |
| | (217,493) | (208,979) | 539,502 | 113,030 |
| Impaired financing and advances: | | | | |
| - Write off | - | - | 32,946 | 32,946 |
| - Recovered | - | - | (30,109) | (30,109) |
| | - | - | 2,837 | 2,837 |
| | (217,493) | (208,979) | 542,339 | 115,867 |

| | Company | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| Loans, financing and advances (Note 9(ix)) | **(1,838)** | **(30,722)** | **(40,904)** | **(73,464)** |
| Other receivables | **-** | **-** | **14,482** | **14,482** |
| Amount due from subsidiaries | **-** | **-** | **12,342** | **12,342** |
| Financing commitments and financial guarantees (Note 26) | **(162)** | **(22)** | **(844)** | **(1,028)** |
| | **(2,000)** | **(30,744)** | **(14,924)** | **(47,668)** |
| Impaired financing and advances: | | | | |
| - Write off | **-** | **-** | **26,731** | **26,731** |
| - Recovered | **-** | **-** | **(18,253)** | **(18,253)** |
| | **-** | **-** | **8,478** | **8,478** |
| | **(2,000)** | **(30,744)** | **(6,446)** | **(39,190)** |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**40. Net allowance/(writeback) for impairment on loans, financing and advances and other financial assets (cont'd.)**

| | Company | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| Loans, financing and advances (Note 9(ix)) | (5,695) | (164,027) | 189,308 | 19,586 |
| Financial assets held-for-sale | 28 | 1,618 | 10,062 | 11,708 |
| Other receivables | - | - | 50,077 | 50,077 |
| Other payables | - | - | 1,570 | 1,570 |
| Financing to subsidiaries | - | - | 4,588 | 4,588 |
| Amount due from subsidiaries | - | - | 8,222 | 8,222 |
| Financing commitments and financial guarantees (Note 26) | (28,533) | (50,375) | (5,086) | (83,994) |
| | (34,200) | (212,784) | 258,741 | 11,757 |
| Impaired financing and advances: | | | | |
| - Write off | - | - | 26,495 | 26,495 |
| - Recovered | - | - | (26,914) | (26,914) |
| | - | - | (419) | (419) |
| | (34,200) | (212,784) | 258,322 | 11,338 |

## 41. Taxation

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Malaysian income tax: | | | | |
| Current income tax | **203,999** | 156,209 | **33,784** | 72,509 |
| Over provision in prior year | **(37,058)** | (2,330) | **(62,426)** | (2,502) |
| | **166,941** | 153,879 | **(28,642)** | 70,007 |
| Deferred tax (Note 22): | | | | |
| Origination and reversal of temporary differences | **8,487** | 42,202 | **2,923** | 3,410 |
| Under provision in prior years | **5,639** | 2,092 | **3,179** | 2,090 |
| | **14,126** | 44,294 | **6,102** | 5,500 |
| Total income tax expense for the year | **181,067** | 198,173 | **(22,540)** | 75,507 |
| Tax recognised directly in equity: | | | | |
| Fair value reserve (Note 22) | **45,589** | 3,368 | **-** | - |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Profit before taxation and zakat | **897,429** | 853,573 | **139,622** | 275,902 |
| Taxation at Malaysian statutory tax rate of 24% | **215,383** | 204,858 | **33,509** | 66,216 |
| Effect of income not subject to tax | **(48,744)** | (47,881) | **-** | 671 |
| Effect of expenses not deductible for tax purposes | **49,306** | 39,851 | **3,198** | 8,898 |
| (Reversal of a previous write-down of deferred tax assets)/Write-down of deferred tax assets | **(3,861)** | 1,657 | **-** | 134 |
| Over provision of income tax in prior years | **(37,044)** | (2,330) | **(62,424)** | (2,502) |
| Under provision of deferred tax in prior years | **5,624** | 2,092 | **3,177** | 2,090 |
| Charge/(reversal) of deferred tax liabilities | **403** | (74) | **-** | - |
| Tax expense for the year | **181,067** | 198,173 | **(22,540)** | 75,507 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 42. 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.

| | 2019 | 2018 |
|---|---|---|
| Net profit for the year (RM'000) | **716,900** | 642,400 |
| Weighted average number of ordinary shares in issue ('000) | **6,533,037** | 6,226,017 |
| Basic earnings per share (sen) | **10.97** | 10.32 |

### (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.

| | 2019 | 2018 |
|---|---|---|
| Net profit for the year (RM'000) | **716,900** | 642,400 |
| Weighted average number of ordinary shares in issue ('000) | **6,533,037** | 6,226,017 |
| Adjusted weighted average number of ordinary shares in issue ('000) | **6,533,037** | 6,226,017 |
| Diluted earning per share (sen) | **10.97** | 10.32 |

## 43. Dividends

| | Group and Company | |
|---|---|---|
| | 2019 RM'000 | 2018 RM'000 |
| **Recognised during the financial year:** | | |
| Final dividend on ordinary shares: | | |
| In respect of financial year ended 31 December 2018/2017: | | |
| - Single-tier final dividend of 5.0 sen per share for 2018 | **319,455** | - |
| - Single-tier final dividend of 5.0 sen per share for 2017 | **-** | 307,497 |
| | **319,455** | 307,497 |

**43. Dividends (cont'd.)**

On 6 May 2020, the Company announced the proposed single-tier final dividend of 3.0 sen net per ordinary share in respect of the financial year ended 31 December 2019. Based on the number of shares in issue of 6,713,401,615 ordinary shares as at 31 December 2019, the dividend payable would be RM201,402,049.

The financial statements for the current financial year do not reflect the proposed final dividend. Such dividend, if approved by the shareholders in the forthcoming Annual General Meeting, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2020.

**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 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.

The Board of Directors has determined that the option to reinvest via the DRP shall apply to the entire portion of the proposed single-tier final dividend of 3.0 sen per ordinary share for the financial year ended 31 December 2019.

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

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

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

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**43. Dividends (cont'd.)**

**MBSB Dividend Reinvestment Plan (cont'd.)**

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

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

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

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

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

**44. Capital adequacy**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Common Equity Tier 1 Capital** | | | | |
| Ordinary share capital | **6,941,542** | 6,682,102 | **6,941,542** | 6,682,102 |
| Retained earnings | **1,484,492** | 1,086,629 | **202,431** | 359,234 |
| Other reserve | **160,837** | 16,873 | **5,843** | 6,261 |
| | **8,586,871** | 7,785,604 | **7,149,816** | 7,047,597 |
| Less : Common Equity Tier 1 regulatory adjustments | | | | |
| Goodwill | **(148,031)** | (188,790) | **-** | - |
| Deferred tax assets | **(28,218)** | - | **(9,585)** | (15,687) |
| Cumulative gains of Investment securities at FVOCI | **(114,082)** | (8,134) | **-** | - |
| Other intangible assets | **(167,209)** | (104,723) | **-** | - |
| Total Common Equity Tier 1 Capital | **8,129,331** | 7,483,957 | **7,140,231** | 7,031,910 |
| **Tier 1 Capital** | | | | |
| Additional Tier 1 capital instruments | **-** | - | **-** | - |
| Less: Tier 1 regulatory adjustments | **-** | - | **-** | - |
| Total Tier 1 capital | **8,129,331** | 7,483,957 | **7,140,231** | 7,031,910 |
| **Tier 2 Capital** | | | | |
| Impairment allowance | **497,961** | 478,878 | **75,219** | 87,137 |
| Tier 2 capital instruments | **1,293,075** | - | **-** | - |
| Total Tier 2 capital | **1,791,036** | 478,878 | **75,219** | 87,137 |
| Total capital base | **9,920,367** | 7,962,835 | **7,215,450** | 7,119,047 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**44. Capital adequacy (cont'd.)**

Breakdown of risk weighted assets in various categories of risk weights are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Total risk weighted assets ("RWA") | | | | |
| - Credit risk | **39,836,868** | 38,310,259 | **7,113,253** | 6,970,930 |
| - Market risk | **33,759** | 2,136 | **-** | - |
| - Operational risk | **2,380,936** | 2,268,538 | **1,048,976** | 1,649,011 |
| Total RWA | **42,251,563** | 40,580,933 | **8,162,229** | 8,619,941 |
| | | | | |
| Capital ratios | | | | |
| Common equity Tier 1 capital | **19.240%** | 18.442% | **87.479%** | 81.577% |
| Tier 1 capital | **19.240%** | 18.442% | **87.479%** | 81.577% |
| Total capital ratio | **23.479%** | 19.622% | **88.400%** | 82.588% |

The capital ratios after the proposed single-tier final dividend of 3.0 sen per ordinary share in respect of financial year ended 31 December 2019 are as follows:

| | Group 2019 | Group 2018 | Company 2019 | Company 2018 |
|---|---|---|---|---|
| Capital ratios (after proposed single-tier final dividend of 3.0 sen per ordinary share) | | | | |
| CET 1 capital | **18.764%** | 17.655% | **85.011%** | 77.871% |
| Tier 1 capital | **18.764%** | 17.655% | **85.011%** | 77.871% |
| Total capital ratio | **23.003%** | 18.835% | **85.933%** | 78.882% |

**45. Significant related party transactions/balances**

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

EPF, the ultimate holding body, is a shareholder with control over the Group, with direct shareholdings of 64.48% as at 31 December 2019 (2018: 63.77%). 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.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Expenses** | | | | |
| Profit expense paid on sukuk to EPF | **56,966** | 56,730 | **-** | 14,110 |
| Profit expense paid on fixed deposits to EPF | **71,235** | 3,847 | **-** | - |
| Rental paid | **249** | 288 | **-** | 72 |
| **Balances** | | | | |
| Sukuk MBSB - SC Murabahah | **1,178,793** | 1,121,242 | **-** | - |
| Accrued profit on sukuk due to EP | **7,983** | 7,824 | **-** | - |
| Fixed deposits by EPF | **1,800,000** | 900,000 | **-** | - |
| Accrued profit on fixed deposits due to EPF | **47,071** | 1,025 | **-** | - |
| Rental deposit | **97** | 97 | **97** | 97 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**45. Significant related party transactions/balances (cont'd.)**

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| **Income/(Expense)** | | | | |
| Profit income from deposit placements | **1** | 24,919 | **-** | 1,742 |
| Profit expense to depositors | **(2,419)** | (2,478) | **-** | - |
| **Balances** | | | | |
| Cash and short-term funds | **71,412** | 19,215 | **-** | - |
| Deposits and placements with financial institutions | **32** | 32 | **-** | - |

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

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

For the financial year ended 31 December 2019, the aggregate amount of the Group and the Company's significant balances with other government-related entities other than the RHB Banking Group of companies are as disclosed below:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| **Income/(Expense)** | | | | |
| Profit from financing | **20,253** | 24,656 | **-** | - |
| Profit to depositors | **(5,579)** | (8,406) | **-** | (1,682) |
| **Balances** | | | | |
| Financing | **303,627** | 303,695 | **-** | - |
| Deposits from customers | **191,076** | 154,019 | **-** | - |

**45. Significant related party transactions/balances (cont'd.)**

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Income/(Expense)** | | | | |
| Interest charged on loans and advances | **-** | - | **4,191** | 68,863 |
| Rental paid | **-** | - | **-** | (225) |
| Other expenses | **(2,844)** | (1,398) | **-** | - |
| **Balances** | | | | |
| Amount due from subsidiaries | **-** | - | **65,040** | 58,152 |
| Deposits from customer | **139,859** | - | **-** | - |

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.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Short-term employee benefits | **9,431** | 9,457 | **-** | 5,267 |
| Pension costs: EPF | **1,014** | 933 | **-** | 617 |
| | **10,445** | 10,390 | **-** | 5,884 |

Included in the total key management personnel are:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Chief Executive Officer's remuneration comprising salary, bonus, allowances and other emoluments | **4,974** | 5,176 | **-** | 3,434 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**45. Significant related party transactions/balances (cont'd.)**

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Expense** | | | | |
| Interest cost incurred on savings and deposits | **(81)** | (78) | **-** | (1) |
| **Balances** | | | | |
| Amount due to in respect of savings and deposits | **2,787** | 2,851 | **-** | - |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| At 1 January/31 December | **813** | 813 | **813** | 813 |

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

**46. Credit exposures arising from transactions with connected parties**

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Outstanding credit exposures with connected parties | **1,622,739** | 884,899 |
| Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures | **3.90%** | 2.11% |
| Percentage of outstanding credit exposures to connected parties which is non-performing or in default | **0.80%** | 0.79% |

## 46. Credit exposures arising from transactions with connected parties (cont'd.)

| | Company | |
|---|---|---|
| | 2019 RM'000 | 2018 RM'000 |
| Outstanding credit exposures with connected parties | **61,661** | 61,523 |
| Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures | **3.24%** | 2.84% |
| Percentage of outstanding credit exposures to connected parties which is non-performing or in default | **3.20%** | 2.80% |

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks, which are effective on 1 January 2008.

## 47. Commitments and contingencies

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

| **Group** **31 December 2019** | **Principal amount RM'000** | **Credit equivalent amount RM'000** | **Risk weighted amount RM'000** |
|---|---|---|---|
| Direct credit substitutes | **179,476** | **177,186** | **177,186** |
| Trade-related contingencies | **96,744** | **48,372** | **48,372** |
| Short-term self liquidating trade related contingencies | **83,691** | **16,738** | **16,738** |
| Irrevocable commitments to extend credit: | | | |
| - one year or less | **1,338,351** | **307,921** | **307,921** |
| - over one year to five years | **3,100,296** | **1,545,476** | **1,488,381** |
| - over five years | **72,000** | **36,000** | **36,000** |
| Foreign exchange related contracts | | | |
| - one year or less | **228,295** | **7,277** | **1,536** |
| | **5,098,853** | **2,138,970** | **2,076,134** |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**47. Commitments and contingencies (cont'd.)**

| Company<br>31 December 2019 | Principal amount RM'000 | Credit equivalent amount RM'000 | Risk weighted amount RM'000 |
|---|---|---|---|
| Direct credit substitutes | **4,141** | **2,031** | **2,031** |
| Trade-related contingencies | **2,939** | **1,469** | **1,469** |
| Irrevocable commitments to extend credit: | | | |
| - over one year to five years | **22,669** | **8,431** | **6,185** |
| | **29,749** | **11,931** | **9,685** |

| Group<br>31 December 2018 | Principal amount RM'000 | Credit equivalent amount RM'000 | Risk weighted amount RM'000 |
|---|---|---|---|
| Direct credit substitutes | 195,617 | 192,992 | 192,866 |
| Trade-related contingencies | 257,427 | 92,396 | 92,396 |
| Irrevocable commitments to extend credit: | | | |
| - one year or less | 1,248,707 | 350,206 | 350,206 |
| - over one year to five years | 4,188,313 | 2,088,759 | 2,088,759 |
| - over five years | 220,816 | 110,408 | 110,408 |
| Foreign exchange related contracts | | | |
| - one year or less | 5,842 | 151 | 151 |
| | 6,116,722 | 2,834,912 | 2,834,786 |

| Company<br>31 December 2018 | Principal amount RM'000 | Credit equivalent amount RM'000 | Risk weighted amount RM'000 |
|---|---|---|---|
| Direct credit substitutes | 7,832 | 5,207 | 5,207 |
| Trade-related contingencies | 2,939 | 1,469 | 1,469 |
| Irrevocable commitments to extend credit: | | | |
| - over one year to five years | 27,471 | 10,503 | 10,503 |
| | 38,242 | 17,179 | 17,179 |

**47. Commitments and contingencies (cont'd.)**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **(i) Capital Commitments** | | | | |
| Property and equipment/Intangible assets: | | | | |
| Contracted but not provided for | **50,342** | 60,203 | **-** | - |

**48. Contingent liabilities (Unsecured)**

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

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

The High Court fixed the matter for full trial on 11, 12 and 15 September 2017. The parties filed Striking-Out Applications on 18 July 2017. On 8 September 2017, the Court found that both claims were time barred and struck out both the claims. Both parties have appealed to the Court of Appeal and the matter was subsequently heard on 28 August 2018. The Court of Appeal dismissed both appeals and directed the matter to be fixed for trial before a different judge.

The matter was now fixed for case management on 13 November 2019 to update the progress of the mediation and the court vacated the case management on 30 January 2020 and 31 January 2020 and further fixed for mediation on 1 April 2020 to 3 April 2020.

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.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**48. Contingent liabilities (Unsecured) (cont'd.)**

(ii) 88 Legacy Sdn Bhd (represented by Malaysia Building Society Berhad. "MBSB") v Pentadbir Tanah Daerah Klang

The State Authority had acquired three (3) pieces of land held under Lot 31632 PM 416, Lot 31633 PM 417 and Lot 31634 PM 418 owned by 88 Legacy Sdn Bhd (represented by Malaysia Building Society Berhad "MBSB"). However, the acquisition had been referred to the court on the basis that the compensation amount awarded by Jabatan Ketua Pengarah Tanah dan Galian ("JKPTG") was insufficient in comparison to the valuation report provided by panel valuer.

Pentadbir Tanah Klang referred the matter to High Court of Shah Alam and based on trial held on 29 January 2020, the Court allowed the appeal on the compensation amount payable to 88 Legacy Sdn Bhd. The compensation amount for appeal is currently being assessed.

The Directors are of the opinion that the additional amount to be compensated is not material to the Company.

**49. Financial risk management**

The Group and the Company have exposure to one or more of the following risks:

(i) Credit risk

Arising from the possibility of losses due to an obligor or, market counterparty or issuer of securities or other instruments held, having failed to perform its contractual obligations to the Group;

(ii) Market risk

Arising from fluctuations in the market value of the trading; or investment exposure arising from changes to market risk factors such as profit rates, currency exchange rates, credit spreads, commodity prices and their associated volatility;

(iii) Liquidity risk

Arising from a Group's ability to efficiently meet its present and future funding needs or regulatory obligations, when they come due, which may adversely affect is daily operations and incur unacceptable losses;

(iv) Operational risk

Arising from risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events;

**49. Financial risk management (cont'd.)**

(v) Profit rate/rate of return risk in the banking book

Current and potential risk to the Group's earning and economic value arising from movement in the profit rates/rate of return;

(vi) Capital risk

Arising from the failure to meet the minimum regulatory and internal requirements; and

(vii) Shariah Non Compliance risk

Arising from possible failure to comply with the Shariah requirements as determined by Shariah Advisory Council ("SAC") of Bank Negara Malaysia ("BNM") and Securities Commission ("SC"), the Shariah Committee and other Shariah regulatory authorities.

**(a) Financial risk management objectives and policies**

Risk management forms an integral part of the Group 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 Risk Management Division and submitted to the Audit Committee ("AC"), Risk Management Committee ("RMC") and/or Board of Directors for approvals.

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

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

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

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

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. 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.

Key features of the Risk Management Framework include:

(i) Governance and Organisation

A strong governance structure is important to ensure an effective and consistent implementation of the Risk Management Framework. The Board is ultimately responsible for the Group's strategic directions, which is supported by the Risk Appetite and Risk Management Frameworks, policies and procedures. The Board is assisted by various risk committees and control functions in ensuring that the Group's Risk Management Framework is effectively maintained.

(ii) Internal Capital Adequacy Assessment Process ("ICAAP")

The Group's ICAAP framework ensures that all material risks are identified, measured and reported; and that adequate capital levels consistent with the risk profiles, including capital buffers, are maintained to support the current and projected demand for capital, under existing and stressed conditions. For non-measurable risks, relevant framework and control mechanisms are implemented to mitigate and manage the same.

(iii) Risk Appetite

It is defined as the amount and types of risk that the Group is able and willing to accept in pursuit of its strategic and business objectives. The development of the risk appetite is integrated into the annual strategic planning process and is adaptable to changing business and market conditions. As the risk appetite is dynamic, the Board sets the risk appetite based on the business and financial targets, while incorporating macroeconomic and global outlook. The Board also considers the actual and targeted risk profile of the Group proposed by senior management and business units when setting the risk appetite. The risk appetite is also being reviewed annually or as and when required.

**49. Financial risk management (cont'd.)**

**(b) Risk Management Framework (cont'd.)**

(iv) Risk Management Process

- Business Planning: Risk Management Division is an element of the business planning process, which encompasses setting frameworks for risk appetite, risk structure and new product or new business activities.

- Risk Identification: Risks are systematically identified through the robust application of the Group's Risk Management Framework, policies and procedures.

- Measure and Assess: Risks are measured and aggregated using the Group-wide methodologies across each of the risk types, including stress testing.

- Manage and Controls: Control and limits are used to manage risk exposures within the risk appetite set by the Board. Controls and limits are regularly monitored and reviewed in the face of evolving business needs, market conditions and regulatory changes. Corrective actions are taken to mitigate risks.

- Monitor and Report: Risks on an individual as well as a portfolio basis are regularly monitored and reported to ensure they remain within the Group's risk appetite.

(v) Risk Management Infrastructure

- Risk Policies, Procedures and Methodologies: Well-defined risk policies by risk type provide the principles by which the Group manages its risks. Procedures provide guidance for day-to-day risk-taking activities. Methodologies provide specific requirements, rules or criteria that must be met to comply with the policy.

- People: Attracting the right talent and skills are the key to ensuring a well-functioning risk management framework. The organisation continuously evolves and proactively responds to the increasing complexity of the Group as well as the economic and regulatory environment.

- Technology and Data: Appropriate technology and sound data management are enablers to support risk management activities.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**(b) Risk Management Framework (cont'd.)**

(vi) Risk Culture

The Group embraces risk management as an integral part of its culture and decision-making processes. The Group's risk management philosophy is embodied in the Three Lines of Defense approach, whereby risks are managed at the point of a risk-taking activity. There is clear accountability of risk ownership across the Group. Guided by the said principle, the Group has launched a Risk Awareness Culture which comprises training, awareness campaigns and roadshows within the Group to promote a healthy risk culture. A strong risk culture minimises the Group's exposure to financial and non-financial risks including reputational impact, over time.

In addition, the Group has implemented the Regional Compliance and Risk Officers ("RCRO") and Designated Compliance and Risk Officers ("DCORO") to cultivate proactive risk and compliance management and to establish a robust risk culture. The DCOROs are appointed at the respective branches, business and functional units across the Group to provide real time advisory on risk and compliance matters.

**(c) Risk organisation**

At the apex of the Group and the Company's risk management structure is the Board of Directors, which comprises Non-Executive Directors. 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 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) 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.

(ii) Credit and Rehabilitation Assessment Committee ("CARAC"): CARAC deliberates and approves decisions on the remaining conventional corporate and retail financing, within the authority limit delegated by MBSB's Board. Where the proposals of the existing corporate and retail financing are not within CARAC's authority limit, it would recommend the proposals to MBSB Board for approval. No new financings are being carried out at MBSB as all new financings are being undertaken by the Bank.

**49. Financial risk management (cont'd.)**

**(c) Risk organisation (cont'd.)**

(iii) 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.

The Group's risk management approach is based on the 'Three Lines of Defence' concept.

1st line of defence - the risk owner or risk-taking unit i.e. Business or Support unit is accountable for putting in place a robust control environment within their respective units. They are responsible for the day-to-day management of operational risk.

2nd line of defence - Risk Management Division is responsible for establishing and maintaining the Risk Management Framework, developing various risk management tools to facilitate the management of operational risk, monitoring the effectiveness of risk management, assessing operational risk issues from the risk owner and escalating the issues to the relevant governance level with recommendations on appropriate risk mitigation strategies. In creating a strong risk culture, the Risk Management Division is also responsible to promote risk awareness across the Group and the Company.

Compliance Division is responsible for ensuring effective oversight on compliance-related risks such as regulatory compliance risk,compliance risk as well as money laundering and terrorism financing risks through proper classification of risks and developing, reviewing and enhancing compliance-related training programme as well as conducting training that promotes awareness creation.

3rd line of defence - Internal Audit provides independent assurance to the Board and senior management on the effectiveness of the risk management process.

**(d) Risk reporting and monitoring**

The Group 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.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**(e) Credit risk mitigation**

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

**(f) Concentration risk**

Concentration of credit risk arises when several 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.

**49.1 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 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.

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(i) Financial instruments by category**

| 2019 | Carrying amount RM'000 | Amortised cost RM'000 | FVOCI RM'000 | Derivatives RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **Financial assets** | | | | |
| Cash and short-term funds | **2,034,889** | **2,034,889** | **-** | **-** |
| Deposits and placements with other financial institutions | **873,515** | **873,515** | **-** | **-** |
| Derivative financial assets | **4,239** | **-** | **-** | **4,239** |
| Financial investments | **11,189,349** | **494,705** | **10,694,644** | **-** |
| Loans, financing and advances | **33,953,822** | **33,953,822** | **-** | **-** |
| Trade and other receivables | **74,753** | **74,753** | **-** | **-** |
| Statutory deposits with Bank Negara Malaysia | **1,090,000** | **1,090,000** | **-** | **-** |
| | **49,220,567** | **38,521,684** | **10,694,644** | **4,239** |
| **Financial liabilities** | | | | |
| Deposits from customers | **25,271,951** | **25,271,951** | **-** | **-** |
| Deposits and placements of banks and other financial institutions | **10,621,769** | **10,621,769** | **-** | **-** |
| Derivative financial liabilities | **1** | **-** | **-** | **1** |
| Trade and other payables | **527,555** | **527,555** | **-** | **-** |
| Lease liabilities | **8,919** | **8,919** | **-** | **-** |
| Recourse obligation on financing sold | **2,481,251** | **2,481,251** | **-** | **-** |
| Sukuk - MBSB SC Murabahah | **1,664,973** | **1,664,973** | **-** | **-** |
| Sukuk Wakalah | **1,293,075** | **1,293,075** | **-** | **-** |
| | **41,869,494** | **41,869,493** | **-** | **1** |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(i) Financial instruments by category (cont'd.)**

| 2019 | Carrying amount RM'000 | Amortised cost RM'000 | FVOCI RM'000 | Derivatives RM'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **Financial assets** | | | | |
| Cash and short-term funds | **189,526** | **189,526** | **-** | **-** |
| Loans, financing and advances | **1,146,505** | **1,146,505** | **-** | **-** |
| Other receivables | **6,490** | **6,490** | **-** | **-** |
| | **1,342,521** | **1,342,521** | **-** | **-** |
| | | | | |
| **Financial liabilities** | | | | |
| Other payables | **144,777** | **144,777** | **-** | **-** |
| | **144,777** | **144,777** | **-** | **-** |

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(i) Financial instruments by category (cont'd.)**

| **2018** | **Carrying amount RM'000** | **Amortised cost RM'000** | **FVOCI RM'000** | **Derivatives RM'000** |
|---|---|---|---|---|
| **Group** | | | | |
| **Financial assets** | | | | |
| Cash and short-term funds | 3,411,986 | 3,411,986 | - | - |
| Deposits and placements with other financial institutions | 931,087 | 931,087 | - | - |
| Derivative financial assets | 67 | - | - | 67 |
| Financial Investments | 5,117,455 | 20,350 | 5,097,105 | - |
| Loans, financing and advances | 33,133,119 | 33,133,119 | - | - |
| Trade and other receivables | 121,050 | 121,050 | - | - |
| Statutory deposits with Bank Negara Malaysia | 1,053,000 | 1,053,000 | - | - |
| | 43,767,764 | 38,670,592 | 5,097,105 | 67 |
| **Financial liabilities** | | | | |
| Deposits from customers | 24,209,449 | 24,209,449 | - | - |
| Deposits and placements of banks and other financial institutions | 8,578,851 | 8,578,851 | - | - |
| Derivative financial liabilities | 2 | - | - | 2 |
| Trade and other payables | 502,270 | 502,270 | - | - |
| Recourse obligation on financing sold | 2,135,518 | 2,135,518 | - | - |
| Sukuk - MBSB SC Murabahah | 1,968,075 | 1,968,075 | - | - |
| | 37,394,165 | 37,394,163 | - | 2 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(i) Financial instruments by category (cont'd.)**

| 2018 | Carrying amount RM'000 | Amortised cost RM'000 | FVOCI RM'000 | Derivatives RM'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **Financial assets** | | | | |
| Cash and short-term funds | 155,077 | 155,077 | - | - |
| Deposits and placements with other financial institutions | 154,347 | 154,347 | - | - |
| Loans, financing and advances | 1,326,502 | 1,326,502 | - | - |
| Other receivables | 36,182 | 36,182 | - | - |
| | 1,672,108 | 1,672,108 | - | - |
| **Financial liabilities** | | | | |
| Other payables | 185,695 | 185,695 | - | - |
| | 185,695 | 185,695 | - | - |

**(ii) Maximum exposure to credit risk**

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

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(ii) Maximum exposure to credit risk (cont'd.)**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Credit exposure for on-balance sheet financial assets** | | | | |
| Cash and short-term funds | **2,034,889** | 3,411,986 | **189,526** | 155,077 |
| Deposits and placements with financial institutions | **873,515** | 931,087 | **-** | 154,347 |
| Derivative financial assets | **4,239** | 67 | **-** | - |
| Financial investments at FVOCI | **10,694,644** | 5,097,105 | **-** | - |
| Financial investments at amortised cost | **494,705** | 20,350 | **-** | - |
| Loans, financing and advances | **33,953,822** | 33,133,119 | **1,146,505** | 1,326,502 |
| Trade receivables | **1** | 561 | **-** | - |
| Other receivables* | **74,752** | 120,489 | **6,490** | 36,182 |
| Statutory deposits with Bank Negara Malaysia | **1,090,000** | 1,053,000 | **-** | - |
| **Total financial assets** | **49,220,567** | 43,767,764 | **1,342,521** | 1,672,108 |

* Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme ("PLCHP") and deferred expenses as these items are classified as non-financial assets.

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Credit exposure for off-balance sheet financial assets** | | | | |
| Direct credit substitutes | **179,476** | 195,617 | **4,141** | 7,832 |
| Trade-related contingencies | **96,744** | 257,427 | **2,939** | 2,939 |
| Short term self-liquidating trade-related contingencies | **83,691** | - | **-** | - |
| Irrevocable commitments | **4,510,647** | 5,657,836 | **22,669** | 27,471 |
| | **4,870,558** | 6,110,880 | **29,749** | 38,242 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality**

(a) Loans, financing and advances

Loans, financing and advances are summarised as follows:

| | Group | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Neither past due nor impaired** | | | | |
| Corporate financing | | | | |
| Excellent | 712 | - | - | 712 |
| Good | 3,038,429 | 148,411 | - | 3,186,840 |
| Average | 3,802,919 | 794,862 | - | 4,597,781 |
| Below Average | 171,898 | 123,787 | - | 295,685 |
| Poor | 20,492 | 259,221 | - | 279,713 |
| Retail financing | 22,381,502 | 1,904,969 | - | 24,286,471 |
| **Total neither past due nor impaired** | **29,415,952** | **3,231,250** | **-** | **32,647,202** |

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

Loans, financing and advances are summarised as follows: (cont'd.)

| | Group | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Past due but not impaired** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | - | 10,116 | - | 10,116 |
| Average | - | 60,770 | - | 60,770 |
| Below Average | - | - | - | - |
| Poor | - | - | - | - |
| Retail financing | - | 1,284,860 | - | 1,284,860 |
| **Total past due but not impaired** | - | 1,355,746 | - | 1,355,746 |
| **Impaired** | - | - | 1,861,542 | 1,861,542 |
| **Gross loans, financing and advances** | 29,415,952 | 4,586,996 | 1,861,542 | 35,864,490 |
| **Less: ECL** | (411,822) | (433,194) | (1,065,652) | (1,910,668) |
| **Net loans, financing and advances** | 29,004,130 | 4,153,802 | 795,890 | 33,953,822 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

Loans, financing and advances are summarised as follows: (cont'd.)

| | Group | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Neither past due nor impaired** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | - | - | - | - |
| Average | 85,125 | - | - | 85,125 |
| Below Average | - | - | - | - |
| Poor | 19,634 | 119,405 | - | 139,039 |
| Retail financing | 245,907 | 173,563 | - | 419,470 |
| **Total neither past due nor impaired** | **350,666** | **292,968** | **-** | **643,634** |

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

Loans, financing and advances are summarised as follows: (cont'd.)

| | Company | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Past due but not impaired** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | - | - | - | - |
| Average | - | - | - | - |
| Below Average | - | - | - | - |
| Poor | - | - | - | - |
| Retail financing | - | 187,318 | - | 187,318 |
| **Total past due but not impaired** | - | 187,318 | - | 187,318 |
| **Impaired** | - | - | 1,043,517 | 1,043,517 |
| **Gross loans, financing and advances** | 350,666 | 480,286 | 1,043,517 | 1,874,469 |
| **Less: ECL** | (10,532) | (64,260) | (653,172) | (727,964) |
| **Net loans, financing and advances** | 340,134 | 416,026 | 390,345 | 1,146,505 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

Loans, financing and advances are summarised as follows: (cont'd.)

| | Group | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Neither past due nor impaired** | | | | |
| Corporate financing | | | | |
| Excellent | 1,380 | - | - | 1,380 |
| Good | 3,487,498 | 273,974 | - | 3,761,472 |
| Average | 2,668,903 | 473,353 | - | 3,142,256 |
| Below Average | 225,842 | 7,862 | - | 233,704 |
| Poor | 51,744 | 22,961 | - | 74,705 |
| Retail financing | 22,285,715 | 1,549,916 | - | 23,835,631 |
| **Total neither past due nor impaired** | 28,721,082 | 2,328,066 | - | 31,049,148 |

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

Loans, financing and advances are summarised as follows: (cont'd.)

| | Group | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Past due but not impaired** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | - | 90,649 | - | 90,649 |
| Average | - | 199,213 | - | 199,213 |
| Below Average | - | 58,833 | - | 58,833 |
| Poor | - | 204,494 | - | 204,494 |
| Retail financing | - | 1,646,796 | - | 1,646,796 |
| **Total past due but not impaired** | - | 2,199,985 | - | 2,199,985 |
| **Impaired** | - | - | 1,923,471 | 1,923,471 |
| **Gross loans, financing and advances** | 28,721,082 | 4,528,051 | 1,923,471 | 35,172,604 |
| **Less: ECL** | (358,907) | (550,621) | (1,129,957) | (2,039,485) |
| **Net loans, financing and advances** | 28,362,175 | 3,977,430 | 793,514 | 33,133,119 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

Loans, financing and advances are summarised as follows: (cont'd.)

| | Company | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Neither past due nor impaired** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | 3,015 | - | - | 3,015 |
| Average | 113,625 | - | - | 113,625 |
| Below Average | - | - | - | - |
| Poor | 20,355 | 19,097 | - | 39,452 |
| Retail financing | 269,213 | 155,945 | - | 425,158 |
| **Total neither past due nor impaired** | 406,208 | 175,042 | - | 581,250 |

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

Loans, financing and advances are summarised as follows: (cont'd.)

| | Company | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Past due but not impaired** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | - | - | - | - |
| Average | - | - | - | - |
| Below Average | - | - | - | - |
| Poor | - | 91,207 | - | 91,207 |
| Retail financing | - | 324,296 | - | 324,296 |
| **Total past due but not impaired** | - | 415,503 | - | 415,503 |
| **Impaired** | - | - | 1,131,177 | 1,131,177 |
| **Gross loans, financing and advances** | 406,208 | 590,545 | 1,131,177 | 2,127,930 |
| **Less: ECL** | (12,370) | (94,982) | (694,076) | (801,428) |
| **Net loans, financing and advances** | 393,838 | 495,563 | 437,101 | 1,326,502 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

| | Group | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Financing commitments** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | 984,399 | 25,672 | - | 1,010,071 |
| Average | 2,103,914 | 672,167 | - | 2,776,081 |
| Below Average | 255,942 | - | - | 255,942 |
| Poor | - | 20 | 5,337 | 5,357 |
| Retail financing | 431,034 | 20,115 | 12,047 | 463,196 |
| **Gross financing commitments** | 3,775,289 | 717,974 | 17,384 | 4,510,647 |
| **Less: ECL** | (40,885) | (15,151) | (6,217) | (62,253) |
| **Net financing commitments** | 3,734,404 | 702,823 | 11,167 | 4,448,394 |
| | | | | |
| **Financial guarantees** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | 57,043 | - | - | 57,043 |
| Average | 144,282 | 104,327 | - | 248,609 |
| Below Average | 9,842 | - | - | 9,842 |
| Poor | 543 | 37 | 43,837 | 44,417 |
| **Gross financing guarantees** | 211,710 | 104,364 | 43,837 | 359,911 |
| **Less: ECL** | (2,520) | (2,749) | (2,289) | (7,558) |
| **Net financing guarantees** | 209,190 | 101,615 | 41,548 | 352,353 |

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

| | Company | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Financing commitments** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | - | - | - | - |
| Average | - | - | - | - |
| Below Average | - | - | - | - |
| Poor | - | - | - | - |
| Retail financing | 13,108 | 2,648 | 6,913 | 22,669 |
| **Gross financing commitments** | 13,108 | 2,648 | 6,913 | 22,669 |
| **Less: ECL** | (208) | (176) | (2,904) | (3,288) |
| **Net financing commitments** | 12,900 | 2,472 | 4,009 | 19,381 |
| | | | | |
| **Financial guarantees** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | - | - | - | - |
| Average | 3,010 | - | - | 3,010 |
| Below Average | - | - | - | - |
| Poor | 540 | - | 3,530 | 4,070 |
| **Gross financing guarantees** | 3,550 | - | 3,530 | 7,080 |
| **Less: ECL** | (43) | - | (2,110) | (2,153) |
| **Net financing guarantees** | 3,507 | - | 1,420 | 4,927 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

| | Group | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Financing commitments** | | | | |
| Corporate financing | | | | |
| Excellent | 506 | - | - | 506 |
| Good | 1,937,849 | 202,108 | - | 2,139,957 |
| Average | 2,469,641 | 414,399 | - | 2,884,040 |
| Below Average | 241,195 | 363 | - | 241,558 |
| Poor | - | 12,630 | 152,248 | 164,878 |
| Retail financing | 200,667 | 13,055 | 13,175 | 226,897 |
| **Gross financing commitments** | 4,849,858 | 642,555 | 165,423 | 5,657,836 |
| **Less: ECL** | (48,412) | (31,232) | (7,084) | (86,728) |
| **Net financing commitments** | 4,801,446 | 611,323 | 158,339 | 5,571,108 |
| | | | | |
| **Financial guarantees** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | 83,254 | - | - | 83,254 |
| Average | 255,955 | 76,170 | - | 332,125 |
| Below Average | - | 4,000 | - | 4,000 |
| Poor | 7,241 | - | 26,424 | 33,665 |
| **Gross financing guarantees** | 346,450 | 80,170 | 26,424 | 453,044 |
| **Less: ECL** | (4,717) | (5,597) | (3,369) | (13,683) |
| **Net financing guarantees** | 341,733 | 74,573 | 23,055 | 439,361 |

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

| | Company | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Financing commitments** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | - | - | - | - |
| Average | - | - | - | - |
| Below Average | - | - | - | - |
| Poor | - | - | - | - |
| Retail financing | 17,989 | 2,206 | 7,276 | 27,471 |
| **Gross financing commitments** | 17,989 | 2,206 | 7,276 | 27,471 |
| **Less: ECL** | (299) | (199) | (3,232) | (3,730) |
| **Net financing commitments** | 17,690 | 2,007 | 4,044 | 23,741 |
| | | | | |
| **Financial guarantees** | | | | |
| Corporate financing | | | | |
| Excellent | - | - | - | - |
| Good | - | - | - | - |
| Average | - | - | - | - |
| Below Average | - | - | - | - |
| Poor | 7,241 | - | 3,530 | 10,771 |
| **Gross financing guarantees** | 7,241 | - | 3,530 | 10,771 |
| **Less: ECL** | (84) | - | (2,625) | (2,709) |
| **Net financing guarantees** | 7,157 | - | 905 | 8,062 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

Internal rating is defined as follows:

| **Risk Level** | **Description** |
|---|---|
| Excellent | Superior capability for payment of financial commitments with little susceptibility to adverse effects to changes in circumstances and economic conditions. |
| Good | Strong capacity to meet financial commitments and are less susceptible to adverse effects to changes in circumstances and economic conditions. |
| Average | Moderate capacity to meet financial commitments and may be susceptible to adverse changes in circumstances and economic conditions. |
| Below Average | Weak in terms of overall credit risk, with some apparent risk of default. May face problems in meeting commitments in the long term. |
| Poor | Poor credit quality and high risk of default. |

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

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, financing and advances which are not past due or have no overdraft for a period of less than three months.

| | **2019** | | **2018** | |
|---|---|---|---|---|
| **Group** | **RM'000** | **% to Gross Financing** | **RM'000** | **% to Gross Financing** |
| By ageing | | | | |
| Months-in-arrears 1 | **964,888** | **2.69%** | 1,517,877 | 4.32% |
| Months-in-arrears 2 | **390,860** | **1.09%** | 682,108 | 1.94% |
| | **1,355,748** | **3.78%** | 2,199,985 | 6.26% |

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

Past due but not impaired (cont'd.)

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Company** | **RM'000** | **% to Gross Financing** | **RM'000** | **% to Gross Financing** |
| By ageing | | | | |
| Months-in-arrears 1 | **117,406** | **6.26%** | 280,767 | 13.20% |
| Months-in-arrears 2 | **69,911** | **3.73%** | 134,736 | 6.33% |
| | **187,317** | **9.99%** | 415,503 | 19.53% |

Credit quality of financial assets that are impaired by credit quality is as follows:

Impaired

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Impaired: | | | | |
| *Individually assessed of which:* | | | | |
| Months-in-arrears 0 | **25,248** | 151,900 | **11,227** | 139,000 |
| Months-in-arrears 1 | **-** | 12,525 | **-** | 12,525 |
| Months-in-arrears 2 | **-** | 3,567 | **-** | - |
| Months-in-arrears 3 and above | **829,427** | 680,015 | **649,207** | 535,720 |
| *Collectively assessed* | **1,006,867** | 1,075,464 | **383,082** | 443,932 |
| | **1,861,542** | 1,923,471 | **1,043,516** | 1,131,177 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(a) Loans, financing and advances (cont'd.)

Impaired (cont'd.)

Impaired loans, financing and advances of which are rescheduled and restructured financing:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Consumer | **48,000** | 91,424 | **7,140** | 12,031 |
| Business | **222,285** | 271,460 | **197,845** | 226,290 |
| | **270,285** | 362,884 | **204,985** | 238,321 |

Rescheduled or restructured financings are financings where the original contractual terms have been modified due to deterioration in the customers' financial positions and the Group has made concessions that it would not otherwise consider. Once the financing is rescheduled or restructured, its satisfactory performance is monitored for a period of six months before it can be reclassified to non-credit impaired.

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(b) Other financial assets

Credit quality of other financial assets is as follows. The rating is based on available rating by external credit agencies.

| | Group | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Neither past due nor impaired** | | | | |
| **Cash and short-term funds** | | | | |
| AAA | **1,937,589** | **-** | **-** | **1,937,589** |
| AA and below | **12,268** | **-** | **-** | **12,268** |
| Unrated | **85,032** | **-** | **-** | **85,032** |
| | **2,034,889** | **-** | **-** | **2,034,889** |
| **Deposits and placements with banks and other financial institutions** | | | | |
| AAA | **873,483** | **-** | **-** | **873,483** |
| AA and below | **32** | **-** | **-** | **32** |
| | **873,515** | **-** | **-** | **873,515** |
| **Debt investments** | | | | |
| AAA | **975,286** | **-** | **-** | **975,286** |
| AA and below | **134,501** | **-** | **-** | **134,501** |
| Unrated* | **10,079,562** | **-** | **-** | **10,079,562** |
| | **11,189,349** | **-** | **-** | **11,189,349** |
| **Other financial assets** | | | | |
| Unrated | **74,752** | **-** | **-** | **74,752** |
| | **74,752** | **-** | **-** | **74,752** |

* Unrated debt investments for the Group include government guaranteed securities of RM9,584,857,000 (2018: RM4,036,477,000)

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(b) Other financial assets (cont'd.)

| | Company | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Neither past due nor impaired** | | | | |
| **Cash and short-term funds** | | | | |
| AAA | **189,526** | **-** | **-** | **189,526** |
| | **189,526** | **-** | **-** | **189,526** |
| **Other financial assets** | | | | |
| Unrated | **6,490** | **-** | **-** | **6,490** |
| | **6,490** | **-** | **-** | **6,490** |

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(b) Other financial assets (cont'd.)

| | Group | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Neither past due nor impaired** | | | | |
| **Cash and short-term funds** | | | | |
| AAA | 3,289,152 | - | - | 3,289,152 |
| AA and below | 71,831 | - | - | 71,831 |
| Unrated | 51,003 | - | - | 51,003 |
| | 3,411,986 | - | - | 3,411,986 |
| **Deposits and placements with banks and other financial institutions** | | | | |
| AAA | 931,055 | - | - | 931,055 |
| AA and below | 32 | - | - | 32 |
| | 931,087 | - | - | 931,087 |
| **Debt investments** | | | | |
| AAA | 969,308 | - | - | 969,308 |
| AA and below | 91,320 | - | - | 91,320 |
| Unrated* | 4,056,827 | - | - | 4,056,827 |
| | 5,117,455 | - | - | 5,117,455 |
| **Other financial assets** | | | | |
| Unrated | 127,275 | - | - | 127,275 |
| | 127,275 | - | - | 127,275 |

* Unrated debt investments for the Group include government guaranteed securities of RM9,584,857,000 (2018: RM4,036,477,000)

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(iii) Credit quality (cont'd.)**

(b) Other financial assets (cont'd.)

| | Company | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| **Neither past due nor impaired** | | | | |
| **Cash and short-term funds** | | | | |
| AAA | 155,077 | - | - | 155,077 |
| | 155,077 | - | - | 155,077 |
| **Deposits and placements with banks and other financial institutions** | | | | |
| AAA | 154,347 | - | - | 154,347 |
| | 154,347 | - | - | 154,347 |
| **Other financial assets** | | | | |
| Unrated | 36,182 | - | - | 36,182 |
| | 36,182 | - | - | 36,182 |

**Credit rating mapping table for other financial assets**

The credit mapping table below provides information to users of financial statements in understanding the Group and the Company's risk management practices and evaluating the nature of risks arising from financial instruments. The Group and the Company's internal rating scale and mapping of external ratings are set out below:

| Rating for disclosures in the financial statements | RAM RATINGS | MARC | MOODY'S |
|---|---|---|---|
| AAA | AAA | AAA | Aaa |
| AA and below | BBB3 to AA1 | BBB- to AA+ | Baa3 to Aa1 |

## 49. Financial risk management (cont'd.)

### 49.1 Credit risk (cont'd.)

#### (iv) Concentration of credit risk

| Group 31 December 2019 | Cash and short-term funds and deposits and placements with financial institutions RM'000 | Derivative financial assets RM'000 | Financial investments at FVOCI RM'000 | Financial investments at amortised cost RM'000 | Loans, financing and advances RM'000 | Trade receivables RM'000 | Other receivables* RM'000 | Statutory deposits with Bank Negara Malaysia RM'000 | On balance sheet total RM'000 | Financial guarantees RM'000 | Commitment and contingencies^ RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial Assets:** | | | | | | | | | | | |
| Government and central banks | 1,671,955 | - | 7,530,627 | - | - | - | - | 1,090,000 | 10,292,582 | - | - |
| Household sectors | - | - | - | - | 24,992,550 | - | - | - | 24,992,550 | - | 460,960 |
| Agriculture | - | - | - | - | 130,594 | - | - | - | 130,594 | - | 81,031 |
| Mining and quarrying | - | - | - | - | 76,950 | - | - | - | 76,950 | 295 | 4,262 |
| Manufacturing | - | - | 10,177 | 20,333 | 356,847 | - | - | - | 387,357 | 4,329 | 141,621 |
| Electricity, gas and water | - | - | 474,031 | - | 255,886 | - | - | - | 729,917 | 11,698 | 129,551 |
| Construction | 13,909 | - | 536,808 | - | 4,605,061 | - | 2,648 | - | 5,158,426 | 288,989 | 2,460,669 |
| Wholesale & retail trade and restaurants & hotels | 1,374 | - | - | - | 459,162 | 1 | 587 | - | 461,124 | 3,995 | 279,796 |
| Transport, storage and communication | - | - | 240,065 | - | 198,647 | - | - | - | 438,712 | 44,305 | 82,318 |
| Finance, insurance and business services | 1,220,800 | - | 1,902,936 | 263,003 | 2,716,425 | - | - | - | 6,103,164 | 6,300 | 837,770 |
| Education, health and others | - | - | - | 211,369 | 161,700 | - | - | - | 373,069 | - | 32,669 |
| Others | 366 | 4,239 | - | - | - | - | 71,517 | - | 76,122 | - | - |
| | 2,908,404 | 4,239 | 10,694,644 | 494,705 | 33,953,822 | 1 | 74,752 | 1,090,000 | 49,220,567 | 359,911 | 4,510,647 |

* Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

^ Commitments and contingencies exclude foreign exchange related contracts.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 49. Financial risk management (cont'd.)

### 49.1 Credit risk (cont'd.)

#### (iv) Concentration of credit risk (cont'd.)

| Company 31 December 2019 | Cash and short-term funds and deposits and placements with financial institutions RM'000 | Derivative financial assets RM'000 | Financial investments at FVOCI RM'000 | Financial investments at amortised cost RM'000 | Loans, financing and advances RM'000 | Trade receivables RM'000 | Other receivables* RM'000 | Statutory deposits with Bank Negara Malaysia RM'000 | On balance sheet total RM'000 | Financial guarantees RM'000 | Commitment and contingencies^ RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial Assets:** | | | | | | | | | | | |
| Household sectors | - | - | - | - | 554,754 | - | - | - | 554,754 | - | 21,714 |
| Agriculture | - | - | - | - | 2,963 | - | - | - | 2,963 | - | - |
| Manufacturing | - | - | - | - | 88,562 | - | - | - | 88,562 | - | 108 |
| Construction | - | - | - | - | 394,701 | - | - | - | 394,701 | 7,080 | 420 |
| Wholesale & retail trade and restaurants & hotels | - | - | - | - | 3,046 | - | - | - | 3,046 | - | 403 |
| Transport, storage and communication | - | - | - | - | 1,769 | - | - | - | 1,769 | - | 24 |
| Finance, insurance and business services | 189,526 | - | - | - | 9,501 | - | - | - | 199,027 | - | - |
| Education, health and others | - | - | - | - | 91,209 | - | - | - | 91,209 | - | - |
| Others | - | - | - | - | - | - | 6,490 | - | 6,490 | - | - |
| | 189,526 | - | - | - | 1,146,505 | - | 6,490 | - | 1,342,521 | 7,080 | 22,669 |

* Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

^ Commitments and contingencies exclude foreign exchange related contracts.

## 49. Financial risk management (cont'd.)

### 49.1 Credit risk (cont'd.)

#### (iv) Concentration of credit risk (cont'd.)

| Group 31 December 2018 | Cash and short-term funds and deposits and placements with financial institutions RM'000 | Derivative financial assets RM'000 | Financial investments at FVOCI RM'000 | Financial investments at amortised cost RM'000 | Loans, financing and advances RM'000 | Trade receivables RM'000 | Other receivables* RM'000 | Statutory deposits with Bank Negara Malaysia RM'000 | On balance sheet total RM'000 | Financial guarantees RM'000 | Commitment and contingencies^ RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial Assets:** | | | | | | | | | | | |
| Government and central banks | 3,067,814 | - | 2,154,192 | - | - | - | - | 1,053,000 | 6,275,006 | - | - |
| Household sectors | - | - | - | - | 24,881,303 | - | - | - | 24,881,303 | - | 386,481 |
| Agriculture | - | - | - | - | 210,620 | - | - | - | 210,620 | 24,680 | 145,137 |
| Mining and quarrying | - | - | - | - | 20,742 | - | - | - | 20,742 | 8,794 | 8,045 |
| Manufacturing | - | - | 10,119 | - | 373,067 | - | - | - | 383,186 | 5,528 | 127,243 |
| Electricity, gas and water | - | - | 502,630 | 20,350 | 228,155 | - | - | - | 751,135 | 95,000 | 357,138 |
| Construction | 13,590 | - | 585,001 | - | 5,626,692 | - | 2,646 | - | 6,227,929 | 309,778 | 3,498,682 |
| Wholesale & retail trade and restaurants & hotels | 496 | - | - | - | 161,860 | 561 | 737 | - | 163,654 | 5,330 | 69,526 |
| Transport, storage and communication | - | - | 206,977 | - | 121,927 | - | - | - | 328,904 | 2,000 | 836,046 |
| Finance, insurance and business services | 1,260,577 | - | 1,071,735 | - | 1,035,556 | - | - | - | 3,367,868 | 1,934 | 99,538 |
| Education, health and others | - | - | 439,709 | - | 473,197 | - | - | - | 912,906 | - | 130,000 |
| Others | 596 | 67 | 126,742 | - | - | - | 117,106 | - | 244,511 | - | - |
| | 4,343,073 | 67 | 5,097,105 | 20,350 | 33,133,119 | 561 | 120,489 | 1,053,000 | 43,767,764 | 453,044 | 5,657,836 |

* Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

^ Commitments and contingencies exclude foreign exchange related contracts.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 49. Financial risk management (cont'd.)

### 49.1 Credit risk (cont'd.)

#### (iv) Concentration of credit risk (cont'd.)

| Company 31 December 2018 | Cash and short-term funds and deposits and placements with financial institutions RM'000 | Derivative financial assets RM'000 | Financial investments at FVOCI RM'000 | Financial investments at amortised cost RM'000 | Loans, financing and advances RM'000 | Trade receivables RM'000 | Other receivables* RM'000 | Statutory deposits with Bank Negara Malaysia RM'000 | On balance sheet total RM'000 | Financial guarantees RM'000 | Commitment and contingencies^ RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial Assets:** | | | | | | | | | | | |
| Household sectors | - | - | - | - | 662,133 | - | - | - | 662,133 | - | 26,308 |
| Agriculture | - | - | - | - | 3,106 | - | - | - | 3,106 | - | - |
| Mining and quarrying | - | - | - | - | - | - | - | - | - | - | - |
| Manufacturing | - | - | - | - | 117,315 | - | - | - | 117,315 | - | 108 |
| Electricity, gas and water | - | - | - | - | - | - | - | - | - | - | - |
| Construction | - | - | - | - | 436,508 | - | - | - | 436,508 | 10,232 | 613 |
| Wholesale & retail trade and restaurants & hotels | - | - | - | - | 3,077 | - | - | - | 3,077 | 539 | 403 |
| Transport, storage and communication | - | - | - | - | 1,963 | - | - | - | 1,963 | - | 39 |
| Finance, insurance and business services | 309,424 | - | - | - | 11,137 | - | - | - | 320,561 | - | - |
| Education, health and others | - | - | - | - | 91,263 | - | - | - | 91,263 | - | - |
| Others | - | - | - | - | - | - | 36,182 | - | 36,182 | - | - |
| | 309,424 | - | - | - | 1,326,502 | - | 36,182 | - | 1,672,108 | 10,771 | 27,471 |

* Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

^ Commitments and contingencies exclude foreign exchange related contracts.

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(v) 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 loans 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.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for net loans, financing and advances for the Group is 25.86% (2018: 23.85%) and the Company is at 90.93% (2018: 86.40%). The financial effect of collateral held for the remaining financial assets are not significant.

**(vi) Key macroeconomic variables**

In computing the Excepted Credit Losses ("ECL") of financing and advances, the Group and the Company incorporate the impact of forward-looking key macroeconomic variables ("MEV") according to the respective portfolio. The Group and the Company performed statistical analysis based on historical experience and identified the MEV impacting credit risk and ECL for each portfolio. The relationship of the MEV on the components of ECL has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and the components. Sources of forecasts of the MEV are external research houses.

The MEVs incorporated into the ECL calculations are supported with 3 economic scenarios i.e. baseline, best and worst case scenarios. The following table shows the MEVs applied but not limited to by the Group and the Company in the ECL models.

# Notes To The Financial Statements
For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.1 Credit risk (cont'd.)**

**(vi) Key macroeconomic variables (cont'd.)**

| Macroeconomic Variables ("MEVs") | Base scenario Next 12 months | Base scenario Remaining forecast period | Best scenario Next 12 months | Best scenario Remaining forecast period | Worst scenario Next 12 months | Worst scenario Remaining forecast period |
|---|---|---|---|---|---|---|
| **Year 2019** | | | | | | |
| Household Disposable Income (in Billion) | **915.88** | **989.54** | **921.12** | **1,020.27** | **906.47** | **950.69** |
| Private Consumption (in Billion) | **906.50** | **1,008.34** | **925.51** | **1,024.26** | **885.13** | **1,001.45** |
| Interbank Offered Rate - 3 months ("KLIB3M") (%) | **2.96** | **3.41** | **2.97** | **3.66** | **2.63** | **2.48** |
| House Price Index ("HPI") | **205.81** | **223.48** | **208.36** | **230.00** | **203.61** | **213.91** |
| Unemployment Rate (%) | **3.11** | **3.10** | **3.01** | **3.02** | **3.61** | **3.53** |
| Overnight Policy Rate ("OPR") (%) | **3.00** | **3.61** | **3.10** | **3.80** | **2.50** | **2.67** |
| Brent Crude Oil Future Prices (USD/barrel) | **64.13** | **66.56** | **79.28** | **81.17** | **60.80** | **63.56** |
| Consumer Price Index ("CPI") | **124.16** | **129.56** | **125.51** | **131.89** | **123.63** | **128.23** |
| Exchange Rate (USD/MYR) | **4.24** | **4.24** | **3.92** | **4.16** | **4.40** | **4.27** |
| Total Unemployed (in Million) | **0.50** | **0.51** | **0.48** | **0.50** | **0.61** | **0.57** |
| **Year 2018** | | | | | | |
| House Price Index ("HPI") | 196.28 | 211.79 | 197.19 | 216.54 | 194.61 | 203.77 |
| Consumer Price Index ("CPI") | 123.05 | 128.33 | 124.40 | 130.65 | 122.53 | 127.03 |

During the year, the Group and the Company improved the ECL models by incorporating additional MEVs to account for potential impact from various external factors.

**49. Financial risk management (cont'd.)**

**49.2 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 macroeconomic factors that will eventually affect the Group and the Company's profitability and capital preservation.

The Group 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 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 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 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, financing and advances.

| | | **Group** | | **Company** | |
|---|---|---|---|---|---|
| | **Tax rate** | **+100 basis points RM'000** | **-100 basis points RM'000** | **+100 basis points RM'000** | **-100 basis points RM'000** |
| **2019** | | | | | |
| Impact to profit before tax | | **(199,488)** | **199,488** | **8,128** | **(8,128)** |
| Impact to profit after tax and equity | 24% | **(151,611)** | **151,611** | **6,177** | **(6,177)** |
| **2018** | | | | | |
| Impact to profit before tax | | (162,069) | 162,069 | (23,011) | 23,011 |
| Impact to profit after tax and equity | 24% | (123,172) | 123,172 | (17,488) | 17,488 |

**49. Financial risk management (cont'd.)**

**49.2 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/profit sensitive are either non-interest/profit bearing or, if interest/profit-bearing, the cash flows arising from these assets are not expected to change significantly if interest/profit rates change.

| Group 2019 | 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/ profit sensitive RM'000 | Total RM'000 | Average interest/ profit rate % per annum |
|---|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | | |
| Cash and short-term funds | 1,838,024 | - | - | - | - | 196,865 | 2,034,889 | 3.13 |
| Deposits and placements with financial institutions | 32 | - | 873,483 | - | - | - | 873,515 | 3.42 |
| Derivative financial assets | 4,239 | - | - | - | - | - | 4,239 | |
| Financial assets at FVOCI | 25,504 | 131,442 | 446,837 | 4,141,654 | 5,949,207 | - | 10,694,644 | 3.86 |
| Financial assets at amortised cost | - | - | - | 30,332 | 464,373 | - | 494,705 | 5.59 |
| Loans, financing and advances: | | | | | | | | |
| - non-impaired | 540,939 | 452,246 | 936,448 | 3,778,456 | 28,294,860 | (845,017) | 33,157,932 | 6.95 |
| - impaired, net of ECL* | - | - | - | - | - | 795,890 | 795,890 | |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | 1,090,000 | 1,090,000 | |
| Trade receivables | - | - | - | - | - | 1 | 1 | |
| Other receivables^ | - | - | - | - | - | 74,752 | 74,752 | |
| **Total financial assets** | 2,408,738 | 583,688 | 2,256,768 | 7,950,442 | 34,708,440 | 1,312,491 | 49,220,567 | |

**49. Financial risk management (cont'd.)**

**49.2 Market risk (cont'd.)**

**Interest/profit rate risk (cont'd.)**

| Group 2019 | 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/ profit sensitive RM'000 | Total RM'000 | Average interest/ profit rate % per annum |
|---|---|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | | | |
| Deposits from customers | 5,208,621 | 5,403,930 | 11,730,675 | 2,726,297 | 104,989 | 97,439 | 25,271,951 | 3.92 |
| Deposits and placements of banks and other financial institutions | 2,601,258 | 3,502,116 | 3,582,828 | 924,240 | - | 11,327 | 10,621,769 | 3.91 |
| Derivative financial liabilities | 1 | - | - | - | - | - | 1 | |
| Trade payables | - | - | - | - | - | 22 | 22 | |
| Other payables # | - | - | - | - | - | 527,533 | 527,533 | |
| Lease liabilities | - | - | 471 | 8,448 | - | - | 8,919 | 4.33 |
| Recourse obligation on financing sold | 10,352 | 24,668 | 65,837 | 2,380,394 | - | - | 2,481,251 | 4.49 |
| Sukuk - MBSB SC Murabahah | - | - | 294,973 | 995,000 | 375,000 | - | 1,664,973 | 4.92 |
| Sukuk Wakalah | - | - | 2,201 | - | 1,290,874 | - | 1,293,075 | 5.29 |
| **Total financial liabilities** | 7,820,232 | 8,930,714 | 15,676,985 | 7,034,379 | 1,770,863 | 636,321 | 41,869,494 | |
| **Total interest/profit sensitivity gap** | (5,411,494) | (8,347,026) | (13,420,217) | 916,063 | 32,937,577 | 676,170 | 7,351,073 | |

* This is arrived after deducting impairments from gross impaired financing.

^ Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

\# Other payables exclude accruals, deferred income and others as these items are classified as non-financial liabilities.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.2 Market risk (cont'd.)**

**Interest/profit rate risk (cont'd.)**

| **Group 2018** | **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/ profit sensitive RM'000** | **Total RM'000** | **Average interest/ profit rate % per annum** |
|---|---|---|---|---|---|---|---|---|
| **<u>Financial Assets</u>** | | | | | | | | |
| Cash and short-term funds | 3,145,727 | - | - | - | - | 266,259 | 3,411,986 | 3.26 |
| Deposits and placements with financial institutions | 1,874 | 154,347 | 774,866 | - | - | - | 931,087 | 3.65 |
| Derivative financial assets | - | 67 | - | - | - | - | 67 | |
| Financial assets at FVOCI | 5,098 | 192,538 | 373,038 | 2,548,826 | 1,977,605 | - | 5,097,105 | 4.09 |
| Financial assets at amortised cost | - | - | - | 20,350 | - | - | 20,350 | 4.22 |
| Loans, financing and advances: | | | | | | | | |
| - non-impaired | 462,943 | 510,908 | 513,036 | 3,725,589 | 28,036,660 | (909,528) | 32,339,608 | 6.70 |
| - impaired, net of ECL* | - | - | - | - | - | 793,511 | 793,511 | |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | 1,053,000 | 1,053,000 | |
| Trade receivables | - | - | - | - | - | 561 | 561 | |
| Other receivables^ | - | - | - | - | - | 120,489 | 120,489 | |
| **Total financial assets** | 3,615,642 | 857,860 | 1,660,940 | 6,294,765 | 30,014,265 | 1,324,292 | 43,767,764 | |

**49. Financial risk management (cont'd.)**

**49.2 Market risk (cont'd.)**

**Interest/profit rate risk (cont'd.)**

| Group 2018 | 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/ profit sensitive RM'000 | Total RM'000 | Average interest/ profit rate % per annum |
|---|---|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | | | |
| Deposits from customers | 6,789,658 | 7,171,717 | 8,154,246 | 1,863,692 | 52,867 | 177,269 | 24,209,449 | 4.08 |
| Deposits and placements of banks and other financial institutions | 2,102,970 | 2,783,187 | 2,812,625 | 871,613 | - | 8,456 | 8,578,851 | 4.05 |
| Derivative financial liabilities | 2 | - | - | - | - | - | 2 | |
| Trade payables | - | - | - | - | - | 225 | 225 | |
| Other payables # | - | - | - | - | - | 502,045 | 502,045 | |
| Recourse obligation on financing sold | 7,597 | 20,511 | 565,744 | 1,541,666 | - | - | 2,135,518 | 4.51 |
| Sukuk - MBSB SC Murabahah | - | - | 308,864 | 1,064,590 | 594,621 | - | 1,968,075 | 4.88 |
| **Total financial liabilities** | 8,900,227 | 9,975,415 | 11,841,479 | 5,341,561 | 647,488 | 687,995 | 37,394,165 | |
| **Total interest/profit sensitivity gap** | (5,284,585) | (9,117,555) | (10,180,539) | 953,204 | 29,366,777 | 636,297 | 6,373,599 | |

* This is arrived after deducting impairments from gross impaired financing.

^ Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

# Other payables exclude accruals, deferred income and others as these items are classified as non-financial liabilities.

**49. Financial risk management (cont'd.)**

**49.2 Market risk (cont'd.)**

**Interest/profit rate risk (cont'd.)**

| Company 2019 | 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 |
|---|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | | |
| Cash and short-term funds | 143,889 | - | - | - | - | 45,637 | 189,526 | 2.77 |
| Loans, financing and advances: | | | | | | | | |
| - non-impaired | 481 | 89 | 4,063 | 212,231 | 614,089 | (74,793) | 756,160 | 7.62 |
| - impaired, net of ECL* | - | - | - | - | - | 390,345 | 390,345 | |
| Other receivables^ | - | - | - | - | - | 6,490 | 6,490 | 6.75 |
| **Total financial assets** | 144,370 | 89 | 4,063 | 212,231 | 614,089 | 367,679 | 1,342,521 | |
| **Financial Liabilities** | | | | | | | | |
| Other payables# | - | - | - | - | - | 144,777 | 144,777 | |
| **Total financial liabilities** | - | - | - | - | - | 144,777 | 144,777 | |
| **Total interest/profit sensitivity gap** | 144,370 | 89 | 4,063 | 212,231 | 614,089 | 222,902 | 1,197,744 | |

* This is arrived after deducting impairments from gross impaired financing.

^ Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

# Other payables exclude accruals, deferred income and others as these items are classified as non-financial liabilities.

**49. Financial risk management (cont'd.)**

**49.2 Market risk (cont'd.)**

**Interest/profit rate risk (cont'd.)**

| Company 2018 | 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 |
|---|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | | |
| Cash and short-term funds | 83,007 | - | - | - | - | 72,070 | 155,077 | 3.00 |
| Deposits and placements with financial institutions | - | 154,347 | - | - | - | - | 154,347 | 3.65 |
| Loans, financing and advances: | | | | | | | | |
| - non-impaired | 140 | 72 | 112,617 | 126,436 | 757,489 | (107,354) | 889,400 | 8.01 |
| - impaired, net of ECL* | - | - | - | - | - | 437,102 | 437,102 | |
| Other receivables^ | 3,375 | - | - | - | - | 32,807 | 36,182 | 7.00 |
| **Total financial assets** | 86,522 | 154,419 | 112,617 | 126,436 | 757,489 | 434,625 | 1,672,108 | |
| **Financial Liabilities** | | | | | | | | |
| Other payables# | - | - | - | - | - | 185,695 | 185,695 | |
| **Total financial liabilities** | - | - | - | - | - | 185,695 | 185,695 | |
| **Total interest/profit sensitivity gap** | 86,522 | 154,419 | 112,617 | 126,436 | 757,489 | 248,930 | 1,486,413 | |

* This is arrived after deducting impairments from gross impaired financing.

^ Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

# Other payables exclude accruals, deferred income and others as these items are classified as non-financial liabilities.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.2 Market risk (cont'd.)**

**Foreign Exchange Risk**

The Group is exposed to transactional foreign exchange exposures which are exposures on assets and liabilities denominated in currencies other than the functional currency of the transacting entity.

The Group takes minimal exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group and the Company manages its exposure to foreign exchange currencies at each entity level.

***Sensitivity Analysis***

The table below shows sensitivity of the Group's profit and reserves to movement in foreign exchange rates:

| | **Group** | |
|---|---|---|
| | **2019** **RM'000** | **2018** **RM'000** |
| **+1%** | **(1,703)** | (87) |
| **-1%** | **1,703** | 87 |

**49. Financial risk management (cont'd.)**

**49.2 Market risk (cont'd.)**

**Foreign Exchange Risk (cont'd.)**

***Sensitivity Analysis (cont'd.)***

| **Group 2019** | **MYR RM'000** | **USD RM'000** | **Others RM'000** | **Total RM'000** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and short-term funds | **2,026,077** | **6,554** | **2,258** | **2,034,889** |
| Deposits and placements with banks and other financial institutions | **873,515** | **-** | **-** | **873,515** |
| Derivative financial assets | **4,239** | **-** | **-** | **4,239** |
| Financial investments at FVOCI | **10,694,644** | **-** | **-** | **10,694,644** |
| Financial investments at amortised cost | **494,705** | **-** | **-** | **494,705** |
| Financing and advances | **33,591,223** | **362,599** | **-** | **33,953,822** |
| Trade receivables | **1** | **-** | **-** | **1** |
| Other receivables | **188,342** | **-** | **-** | **188,342** |
| Statutory deposits with Bank Negara Malaysia | **1,090,000** | **-** | **-** | **1,090,000** |
| Inventories | **102,175** | **-** | **-** | **102,175** |
| Property and equipment | **313,964** | **-** | **-** | **313,964** |
| Right-of-use assets | **8,784** | **-** | **-** | **8,784** |
| Intangible assets | **167,209** | **-** | **-** | **167,209** |
| Goodwill | **148,031** | **-** | **-** | **148,031** |
| Investment properties | **820** | **-** | **-** | **820** |
| Land use rights | **521** | **-** | **-** | **521** |
| Deferred tax assets | **28,218** | **-** | **-** | **28,218** |
| Tax recoverable | **605,778** | **-** | **-** | **605,778** |
| **Total assets** | **50,338,246** | **369,153** | **2,258** | **50,709,657** |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.2 Market risk (cont'd.)**

**Foreign Exchange Risk (cont'd.)**

***Sensitivity Analysis (cont'd.)***

| Group<br>2019 | MYR<br>RM'000 | USD<br>RM'000 | Others<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Deposits from customers | 25,136,935 | 126,161 | 8,855 | 25,271,951 |
| Deposits and placements of banks and other financial institutions | 10,609,489 | 12,280 | - | 10,621,769 |
| Derivative financial liabilities | 1 | - | - | 1 |
| Trade payables | 22 | - | - | 22 |
| Other payables | 642,278 | - | - | 642,278 |
| Lease liabilities | 8,919 | - | - | 8,919 |
| Recourse obligation on financing sold | 2,481,251 | - | - | 2,481,251 |
| Sukuk - MBSB Structured Covered ("SC") Murabahah | 1,664,973 | - | - | 1,664,973 |
| Sukuk Wakalah | 1,293,075 | - | - | 1,293,075 |
| Deferred tax liabilities | 126,607 | - | - | 126,607 |
| Provision for zakat | 11,940 | - | - | 11,940 |
| **Total liabilities** | 41,975,490 | 138,441 | 8,855 | 42,122,786 |
| | | | | |
| **Net on-balance sheet financial position** | 8,362,756 | 230,712 | (6,597) | 8,586,871 |

**49. Financial risk management (cont'd.)**

**49.2 Market risk (cont'd.)**

**Foreign Exchange Risk (cont'd.)**

***Sensitivity Analysis (cont'd.)***

| **Group 2018** | **MYR RM'000** | **USD RM'000** | **Others RM'000** | **Total RM'000** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and short-term funds | 3,359,826 | 49,244 | 2,916 | 3,411,986 |
| Deposits and placements with banks and other financial institutions | 931,087 | - | - | 931,087 |
| Derivative financial assets | 67 | - | - | 67 |
| Financial investments at FVOCI | 5,097,105 | - | - | 5,097,105 |
| Financial investments at amortised cost | 20,350 | - | - | 20,350 |
| Financing and advances | 33,122,639 | 10,480 | - | 33,133,119 |
| Trade receivables | 561 | - | - | 561 |
| Other receivables | 243,047 | - | - | 243,047 |
| Statutory deposits with Bank Negara Malaysia | 1,053,000 | - | - | 1,053,000 |
| Inventories | 102,432 | - | - | 102,432 |
| Property and equipment | 297,567 | - | - | 297,567 |
| Intangible assets | 293,513 | - | - | 293,513 |
| Investment properties | 820 | - | - | 820 |
| Land use rights | 5,262 | - | - | 5,262 |
| Deferred tax assets | 34,318 | - | - | 34,318 |
| Tax recoverable | 801,278 | - | - | 801,278 |
| **Total assets** | 45,362,872 | 59,724 | 2,916 | 45,425,512 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.2 Market risk (cont'd.)**

**Foreign Exchange Risk (cont'd.)**

***Sensitivity Analysis (cont'd.)***

| Group<br>2018 | MYR<br>RM'000 | USD<br>RM'000 | Others<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Deposits from customers | 24,158,253 | 50,924 | 272 | 24,209,449 |
| Deposits and placements of banks and other financial institutions | 8,578,851 | - | - | 8,578,851 |
| Derivative financial liabilities | 2 | - | - | 2 |
| Trade payables | 225 | - | - | 225 |
| Other payables | 650,767 | - | - | 650,767 |
| Recourse obligation on financing sold | 2,135,518 | - | - | 2,135,518 |
| Sukuk - MBSB Structured Covered ("SC") Murabahah | 1,968,075 | - | - | 1,968,075 |
| Deferred tax liabilities | 60,120 | - | - | 60,120 |
| Provision for zakat | 36,901 | - | - | 36,901 |
| **Total liabilities** | 37,588,712 | 50,924 | 272 | 37,639,908 |
| **Net on-balance sheet financial position** | 7,774,160 | 8,800 | 2,644 | 7,785,604 |

**49.3 Liquidity risk**

The Group 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.

**49. Financial risk management (cont'd.)**

**49.3 Liquidity risk (cont'd.)**

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

**(a) Maturity analysis**

| Group 2019 | On demand or within one year RM'000 | One to five years RM'000 | Over five years RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and short-term funds | 1,838,024 | - | - | 196,865 | 2,034,889 |
| Deposits and placements with other financial institutions | 873,515 | - | - | - | 873,515 |
| Derivative financial assets | 4,239 | - | - | - | 4,239 |
| Financial investments at fair value through other comprehensive income ("FVOCI") | 603,783 | 4,141,654 | 5,949,207 | - | 10,694,644 |
| Financial investments at amortised cost | - | 30,332 | 464,373 | - | 494,705 |
| Loans, financing and advances* | 2,189,315 | 3,827,395 | 27,937,112 | - | 33,953,822 |
| Trade receivables | 1 | - | - | - | 1 |
| Other receivables^ | 74,752 | - | - | - | 74,752 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | 1,090,000 | 1,090,000 |
| **Total financial assets** | 5,583,629 | 7,999,381 | 34,350,692 | 1,286,865 | 49,220,567 |

* This is arrived after deducting ECL from gross financing and advances.

^ Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.3 Liquidity risk (cont'd.)**

**(a) Maturity analysis (cont'd.)**

| Group 2019 | On demand or within one year RM'000 | One to five years RM'000 | Over five years RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Deposits from customers | **22,440,665** | **2,726,297** | **104,989** | **-** | **25,271,951** |
| Deposits and placements of banks and other financial institutions | **9,697,529** | **924,240** | **-** | **-** | **10,621,769** |
| Derivative financial liabilities | **1** | **-** | **-** | **-** | **1** |
| Trade payables | **22** | **-** | **-** | **-** | **22** |
| Other payables# | **527,533** | **-** | **-** | **-** | **527,533** |
| Lease liabilities | **471** | **8,448** | **-** | **-** | **8,919** |
| Recourse obligation on financing sold | **100,857** | **2,380,394** | **-** | **-** | **2,481,251** |
| Sukuk - MBSB SC Murabahah | **294,973** | **995,000** | **375,000** | **-** | **1,664,973** |
| Sukuk Wakalah | **2,201** | **-** | **1,290,874** | **-** | **1,293,075** |
| **Total financial liabilities** | **33,064,252** | **7,034,379** | **1,770,863** | **-** | **41,869,494** |
| Net liquidity gap on Statement of Financial Position | **(27,480,623)** | **965,002** | **32,579,829** | **1,286,865** | **7,351,073** |
| Commitments and contingencies@ | **(1,594,333)** | **(3,204,225)** | **(72,000)** | **-** | **(4,870,558)** |
| **Net liquidity gap** | **(29,074,956)** | **(2,239,223)** | **32,507,829** | **1,286,865** | **2,480,515** |

# Other payables exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

@ Commitments and contingencies exclude foreign exchange related contracts.

**49. Financial risk management (cont'd.)**

**49.3 Liquidity risk (cont'd.)**

**(a) Maturity analysis (cont'd.)**

| **Group 2018** | **On demand or within one year RM'000** | **One to five years RM'000** | **Over five years RM'000** | **No specific maturity RM'000** | **Total RM'000** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and short-term funds | 3,411,986 | - | - | - | 3,411,986 |
| Deposits and placements with other financial institutions | 931,087 | - | - | - | 931,087 |
| Derivative financial assets | 67 | - | - | - | 67 |
| Financial investments at fair value through other comprehensive income ("FVOCI") | 570,674 | 2,548,826 | 1,977,605 | - | 5,097,105 |
| Financial investments at amortised cost | - | 20,350 | - | - | 20,350 |
| Loans, financing and advances* | 1,771,580 | 3,695,525 | 27,666,014 | - | 33,133,119 |
| Trade receivables | 561 | - | - | - | 561 |
| Other receivables^ | 120,489 | - | - | - | 120,489 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | 1,053,000 | 1,053,000 |
| **Total financial assets** | 6,806,444 | 6,264,701 | 29,643,619 | 1,053,000 | 43,767,764 |

* This is arrived after deducting ECL from gross financing and advances.

^ Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.3 Liquidity risk (cont'd.)**

**(a) Maturity analysis (cont'd.)**

| Group 2018 | On demand or within one year RM'000 | One to five years RM'000 | Over five years RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Deposits from customers | 22,292,890 | 1,863,692 | 52,867 | - | 24,209,449 |
| Deposits and placements of banks and other financial institutions | 7,707,238 | 871,613 | - | - | 8,578,851 |
| Derivative financial liabilities | 2 | - | - | - | 2 |
| Trade payables | 225 | - | - | - | 225 |
| Other payables# | 502,045 | - | - | - | 502,045 |
| Recourse obligation on financing sold | 593,852 | 1,541,666 | - | - | 2,135,518 |
| Sukuk - MBSB SC Murabahah | 308,864 | 1,064,590 | 594,621 | - | 1,968,075 |
| **Total financial liabilities** | 31,405,116 | 5,341,561 | 647,488 | - | 37,394,165 |
| Net liquidity gap on Statement of Financial Position | (24,598,672) | 923,140 | 28,996,131 | 1,053,000 | 6,373,599 |
| Commitments and contingencies@ | (1,492,151) | (4,397,913) | (220,816) | - | (6,110,880) |
| **Net liquidity gap** | (26,090,823) | (3,474,773) | 28,775,315 | 1,053,000 | 262,719 |

# Other payables exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

@ Commitments and contingencies exclude foreign exchange related contracts.

**49. Financial risk management (cont'd.)**

**49.3 Liquidity risk (cont'd.)**

**(a) Maturity analysis (cont'd.)**

| **Company 2019** | **On demand or within one year RM'000** | **One to five years RM'000** | **Over five years RM'000** | **No specific maturity RM'000** | **Total RM'000** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and short-term funds | **143,889** | **-** | **-** | **45,637** | **189,526** |
| Loans, financing and advances* | **249,871** | **216,378** | **680,256** | **-** | **1,146,505** |
| Other receivables^ | **6,490** | **-** | **-** | **-** | **6,490** |
| **Total financial assets** | **400,250** | **216,378** | **680,256** | **45,637** | **1,342,521** |
| **Financial liabilities** | | | | | |
| Other payables# | **144,777** | **-** | **-** | **-** | **144,777** |
| **Total financial liabilities** | **144,777** | **-** | **-** | **-** | **144,777** |
| Net liquidity gap on Statement of Financial Position | **255,473** | **216,378** | **680,256** | **45,637** | **1,197,744** |
| Commitments and contingencies@ | **(7,080)** | **(22,669)** | **-** | **-** | **(29,749)** |
| **Net liquidity gap** | **248,393** | **193,709** | **680,256** | **45,637** | **1,167,995** |

* This is arrived after deducting ECL from gross financing and advances.

^ Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

# Other payables exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

@ Commitments and contingencies exclude foreign exchange related contracts.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.3 Liquidity risk (cont'd.)**

**(a) Maturity analysis (cont'd.)**

| **Company 2018** | **On demand or within one year RM'000** | **One to five years RM'000** | **Over five years RM'000** | **No specific maturity RM'000** | **Total RM'000** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and short-term funds | 155,077 | - | - | - | 155,077 |
| Deposits and placements with other financial institutions | 154,347 | - | - | - | 154,347 |
| Loans, financing and advances* | 400,751 | 122,099 | 803,652 | - | 1,326,502 |
| Other receivables^ | 36,182 | - | - | - | 36,182 |
| **Total financial assets** | 746,357 | 122,099 | 803,652 | - | 1,672,108 |
| **Financial liabilities** | | | | | |
| Other payables# | 185,695 | - | - | - | 185,695 |
| **Total financial liabilities** | 185,695 | - | - | - | 185,695 |
| Net liquidity gap on Statement of Financial Position | 560,662 | 122,099 | 803,652 | - | 1,486,413 |
| Commitments and contingencies@ | (10,196) | (28,046) | - | - | (38,242) |
| **Net liquidity gap** | 550,466 | 94,053 | 803,652 | - | 1,448,171 |

* This is arrived after deducting ECL from gross financing and advances.

^ Other receivables exclude advances in respect of certain projects, loan commitment fees, foreclosed properties, prepayments and deposits, Public Low Cost Housing Programme (PLCHP) and deferred expenses as these items are classified as non-financial assets.

# Other payables exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

@ Commitments and contingencies exclude foreign exchange related contracts.

**49. Financial risk management (cont'd.)**

**49.3 Liquidity risk (cont'd.)**

**(b) Contractual maturity of financial liabilities on an undiscounted basis**

| Group 2019 | On demand or within one year RM'000 | One to five years RM'000 | Over five years RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Deposits from customers | **22,360,750** | **2,981,791** | **132,933** | **-** | **25,475,474** |
| Deposits and placements of banks and other financial institutions | **9,787,128** | **1,022,622** | **-** | **-** | **10,809,750** |
| Derivative financial liabilities | **1** | **-** | **-** | **-** | **1** |
| Trade payables | **22** | **-** | **-** | **-** | **22** |
| Other payables# | **527,533** | **-** | **-** | **-** | **527,533** |
| Lease liabilities | **480** | **8,802** | **-** | **-** | **9,282** |
| Recourse obligation on financing sold | **205,723** | **2,617,551** | **-** | **-** | **2,823,274** |
| Sukuk - MBSB SC Murabahah | **380,524** | **1,183,076** | **416,240** | **-** | **1,979,840** |
| Sukuk Wakalah | **67,317** | **267,800** | **1,703,090** | **-** | **2,038,207** |
| | **33,329,478** | **8,081,642** | **2,252,263** | **-** | **43,663,383** |
| **Commitments and contingencies@** | | | | | |
| Direct credit substitutes | **115,392** | **64,083** | **-** | **-** | **179,475** |
| Trade-related contingencies | **56,899** | **39,845** | **-** | **-** | **96,744** |
| Short-term self-liquidating trade-related contingencies | **83,691** | **-** | **-** | **-** | **83,691** |
| Irrevocable commitments | **1,338,351** | **3,100,297** | **72,000** | **-** | **4,510,648** |
| | **1,594,333** | **3,204,225** | **72,000** | **-** | **4,870,558** |

# Other payables exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

@ Commitments and contingencies exclude foreign exchange related contracts.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.3 Liquidity risk (cont'd.)**

**(b) Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)**

| Group 2018 | On demand or within one year RM'000 | One to five years RM'000 | Over five years RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Deposits from customers | 22,827,623 | 2,138,159 | 69,698 | - | 25,035,480 |
| Deposits and placements of banks and other financial institutions | 7,517,308 | 1,031,993 | - | - | 8,549,301 |
| Derivative financial liabilities | 2 | - | - | - | 2 |
| Trade payables | 225 | - | - | - | 225 |
| Other payables# | 502,045 | - | - | - | 502,045 |
| Recourse obligation on financing sold | 675,578 | 1,717,725 | - | - | 2,393,303 |
| Sukuk - MBSB SC Murabahah | 399,459 | 1,309,715 | 670,125 | - | 2,379,299 |
| | 31,922,240 | 6,197,592 | 739,823 | - | 38,859,655 |
| **Commitments and contingencies@** | | | | | |
| Direct credit substitutes | 90,413 | 105,204 | - | - | 195,617 |
| Trade-related contingencies | 153,033 | 104,394 | - | - | 257,427 |
| Irrevocable commitments | 1,248,705 | 4,188,315 | 220,816 | - | 5,657,836 |
| | 1,492,151 | 4,397,913 | 220,816 | - | 6,110,880 |

# Other payables exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

@ Commitments and contingencies exclude foreign exchange related contracts.

**49. Financial risk management (cont'd.)**

**49.3 Liquidity risk (cont'd.)**

**(b) Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)**

| Company 2019 | On demand or within one year RM'000 | One to five years RM'000 | Over five years RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Other payables[#] | 144,777 | - | - | - | 144,777 |
| | 144,777 | - | - | - | 144,777 |
| **Commitments and contingencies[@]** | | | | | |
| Direct credit substitutes | 4,141 | - | - | - | 4,141 |
| Trade-related contingencies | 2,939 | - | - | - | 2,939 |
| Irrevocable commitments | - | 22,669 | - | - | 22,669 |
| | 7,080 | 22,669 | - | - | 29,749 |

[#] Other payables exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

[@] Commitments and contingencies exclude foreign exchange related contracts.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**49. Financial risk management (cont'd.)**

**49.3 Liquidity risk (cont'd.)**

**(b) Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)**

| Company 2018 | On demand or within one year RM'000 | One to five years RM'000 | Over five years RM'000 | No specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Other payables# | 185,695 | - | - | - | 185,695 |
| | 185,695 | - | - | - | 185,695 |
| **Commitments and contingencies@** | | | | | |
| Direct credit substitutes | 7,257 | 575 | - | - | 7,832 |
| Trade-related contingencies | 2,939 | - | - | - | 2,939 |
| Irrevocable commitments | - | 27,471 | - | - | 27,471 |
| | 10,196 | 28,046 | - | - | 38,242 |

# Other payables exclude other provisions and accruals as well as deferred income as these items are classified as non-financial liabilities.

@ Commitments and contingencies exclude foreign exchange related contracts.

**49. Financial risk management (cont'd.)**

**49.4 Operational risk**

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems and external events, which includes legal risk and Shariah compliance risk but excludes strategic and reputational risk. The Group recognises and emphasises the importance of operational risk management and manages this risk through a control-based environment where processes are documented, authorisation is independent, transactions are reconciled and monitored and business activities are carried out within the established guidelines, procedures and limits. The Group's governance approach in managing operational risk is premised on the Three Lines of Defense Approach as discussed under Note 49(c).

**50. Capital management**

The primary objective of the Group 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 2018 and 2019.

The Group and the Company monitor their capital using both leverage ratio (which is computed using Common Equity Tier 1 capital 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.

## 51. Fair values

Tha carrying amount of cash and short-term funds, deposits and placements with financial institutions, trade and other receivables (excluding prepayments and deposits) and trade and other payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The tables below analyse other financial instruments at fair value.

| | Fair value of financial instruments carried at fair value | | | | Fair value of financial instruments not carried at fair value | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Group | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 | Total fair value | Carrying amount |
| **2019** | | | | | | | | | | |
| **Financial Assets** | | | | | | | | | | |
| Financial investments at FVOCI | - | 10,694,644 | - | 10,694,644 | - | - | - | - | 10,694,644 | 10,694,644 |
| Loans, financing and advances | - | - | - | - | - | - | 34,390,379 | 34,390,379 | 34,390,379 | 33,953,822 |
| Financial investments at amortised cost | - | - | - | - | - | 494,165 | - | 494,165 | 494,165 | 494,705 |
| Derivative financial assets | - | 4,239 | - | 4,239 | - | - | - | - | 4,239 | 4,239 |
| | - | 10,698,883 | - | 10,698,883 | - | 494,165 | 34,390,379 | 34,884,544 | 45,583,427 | 45,147,410 |
| **Financial liabilities** | | | | | | | | | | |
| Deposits from customers | - | - | - | - | - | 25,421,632 | - | 25,421,632 | 25,421,632 | 25,271,951 |
| Deposits and placements of banks and other financial institutions | - | - | - | - | - | 10,716,722 | - | 10,716,722 | 10,716,722 | 10,621,769 |
| Sukuk - MBSB SC Murabahah | - | - | - | - | - | 1,729,374 | - | 1,729,374 | 1,729,374 | 1,664,973 |
| Sukuk Wakalah | - | - | - | - | - | 1,300,000 | - | 1,300,000 | 1,300,000 | 1,293,075 |
| Recourse obligation on financing sold | - | - | - | - | - | - | 2,498,652 | 2,498,652 | 2,498,652 | 2,481,251 |
| Derivative financial liabilities | - | 1 | - | 1 | - | - | - | - | 1 | 1 |
| | - | 1 | - | 1 | - | 39,167,728 | 2,498,652 | 41,666,380 | 41,666,381 | 41,333,020 |
| **Company** | | | | | | | | | | |
| **Financial Assets** | | | | | | | | | | |
| Loans, financing and advances | - | - | - | - | - | - | 1,147,733 | 1,147,733 | 1,147,733 | 1,146,505 |
| | - | - | - | - | - | - | 1,147,733 | 1,147,733 | 1,147,733 | 1,146,505 |

## 51. Fair values (cont'd.)

The tables below analyse other financial instruments at fair value (cont'd.)

| Group | Fair value of financial instruments carried at fair value | | | | Fair value of financial instruments not carried at fair value | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 | Total fair value | Carrying amount |
| **2018** | | | | | | | | | | |
| **Financial Assets** | | | | | | | | | | |
| Financial investments at FVOCI | - | 5,097,105 | - | 5,097,105 | - | - | - | - | 5,097,105 | 5,097,105 |
| Loans, financing and advances | - | - | - | - | - | - | 35,091,760 | 35,091,760 | 35,091,760 | 33,133,119 |
| Financial investments at amortised cost | - | - | - | - | - | 20,145 | - | 20,145 | 20,145 | 20,350 |
| Derivative financial assets | - | 67 | - | 67 | - | - | - | - | 67 | 67 |
| | - | 5,097,172 | - | 5,097,172 | - | 20,145 | 35,091,760 | 35,111,905 | 40,209,077 | 38,250,641 |
| **Financial liabilities** | | | | | | | | | | |
| Deposits from customers | - | - | - | - | - | 24,219,537 | - | 24,219,537 | 24,219,537 | 24,209,449 |
| Deposits and placements of banks and other financial institutions | - | - | - | - | - | 8,582,337 | - | 8,582,337 | 8,582,337 | 8,578,851 |
| Sukuk - MBSB SC Murabahah | - | - | - | - | - | 1,993,863 | - | 1,993,863 | 1,993,863 | 1,968,075 |
| Recourse obligation on financing sold | - | - | - | - | - | - | 2,149,454 | 2,149,454 | 2,149,454 | 2,135,518 |
| Derivative financial liabilities | - | 2 | - | 2 | - | - | - | - | 2 | 2 |
| | - | 2 | - | 2 | - | 34,795,737 | 2,149,454 | 36,945,191 | 36,945,193 | 36,891,895 |
| **Company** | | | | | | | | | | |
| **Financial Assets** | | | | | | | | | | |
| Loans, financing and advances | - | - | - | - | - | - | 1,328,331 | 1,328,331 | 1,328,331 | 1,326,502 |
| | - | - | - | - | - | - | 1,328,331 | 1,328,331 | 1,328,331 | 1,326,502 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**51. Fair values (cont'd.)**

The fair values of the financial instruments not measured at fair value are based on the following methodologies and assumptions:

**(i) Financial investments at FVOCI and financial investments at amortised cost**

The estimated fair value is generally based on the quoted and observable market prices. Where there is no ready market in certain securities, the Group and the Company establish fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

**(ii) Loans, financing and advances**

The fair value of fixed rate financing with remaining maturities of less than one year and variable rate financing are estimated to approximate the carrying amount. For fixed rate financing 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 financing to new borrowers with similar credit profiles as at the reporting date.

The fair value of impaired fixed and variable rate financing is represented by their carrying amount, which are net of impairment allowances.

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

Deposits, placements and obligations which mature or reprice after one year are grouped by residual maturity. Fair value is estimated using discounted cash flows, applying either market rates, where applicable, or current rates offered for deposits of similar remaining maturities. The fair values of deposits repayable on demand and deposits and placements with remaining maturities of less than one year are approximated by their carrying values due to the relatively short maturity of these instruments.

**(iv) Recourse obligation on financing sold**

The fair values for recourse obligations on 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.

**(v) Sukuk - MBSB SC Murabahah and Sukuk Wakalah**

The fair value of Sukuk - MBSB SC Murabahah and Sukuk Wakalah are based on market prices.

**52. Operating segments**

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chief Operating Decision Maker ("CODM") (i.e. the Management) reviews internal management reports at least on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

(i) Banking - Banking business and the provision of related financial services;

(ii) Property development - the development of residential and commercial properties;

(iii) Leasing of real property - the letting of office buildings;

(iv) Hotel operations - the leasing of hotel rooms, sale of food and beverage and other related income; and

(v) Investment holding - issuance of Sukuk and holding company operation.

Other business segments include project management which are not significant to be reported separately.

The Group operates predominantly in Malaysia and accordingly, information by geographical location on the Group's operation is not presented.

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

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 52. Operating segments (cont'd.)

### (a) Business segments (cont'd.)

| | Banking | | Property development | | Leasing of real property | | Hotel operations | | Investment holding | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Revenue and expenses** | | | | | | | | | | | | | | | | |
| **Revenue** | | | | | | | | | | | | | | | | |
| External sales | **2,818,852** | 2,089,310 | **51,039** | 45,945 | **-** | - | **2,449** | 6,925 | **139,663** | 720,544 | **-** | - | **-** | - | **3,012,003** | 2,862,724 |
| Inter-segment sales | **122,992** | 21,435 | **-** | - | **878** | 899 | **3,844** | 3,916 | **160,763** | 10,280 | **-** | - | **(288,477)** | (36,530) | **-** | - |
| Total revenue | | | | | | | | | | | | | | | **3,012,003** | 2,862,724 |
| **Result** | | | | | | | | | | | | | | | | |
| Segment results | **663,691** | 447,417 | **(47,621)** | (65,605) | **(18,182)** | (16,926) | **(32,057)** | (22,268) | **229,119** | 365,584 | **(253)** | (238) | **102,732** | 145,609 | **897,429** | 853,573 |
| Taxation | | | | | | | | | | | | | | | **(181,067)** | (198,173) |
| Zakat | | | | | | | | | | | | | | | **899** | (13,000) |
| Loss from discontinued operation | | | | | | | | | | | | | | | **(361)** | - |
| Net profit for the year | | | | | | | | | | | | | | | **716,900** | 642,400 |
| **Assets** | | | | | | | | | | | | | | | | |
| Segment assets | **50,348,379** | 44,946,851 | **421,083** | 370,851 | **5,752** | 5,956 | **19,097** | 64,552 | **10,458,761** | 10,659,302 | **372** | 371 | **(10,543,787)** | (10,622,371) | **50,709,657** | 45,425,512 |
| Consolidated total assets | | | | | | | | | | | | | | | **50,709,657** | 45,425,512 |
| **Liabilities** | | | | | | | | | | | | | | | | |
| Segment liabilities | **44,299,612** | 40,045,507 | **1,054,482** | 956,607 | **195,107** | 177,144 | **196,890** | 209,901 | **2,815,399** | 3,200,138 | **3,781** | 3,529 | **(6,442,485)** | (6,952,918) | **42,122,786** | 37,639,908 |
| Consolidated total liabilities | | | | | | | | | | | | | | | **42,122,786** | 37,639,908 |
| **Other Information** | | | | | | | | | | | | | | | | |
| Capital expenditure | **46,182** | 103,435 | **50,145** | 120,129 | **-** | - | **35** | 31 | **-** | 13,245 | **-** | - | **-** | - | **96,362** | 236,840 |
| Depreciation of property, plant and equipment | **6,276** | 4,290 | **-** | - | **186** | 186 | **1,451** | 2,335 | **464** | 1,804 | **-** | - | **228** | - | **8,605** | 8,615 |
| Amortisation of land used rights and intangible assets | **22,213** | 9,635 | **-** | - | **20** | 20 | **84** | 158 | **-** | 1,731 | **-** | - | **1,984** | - | **24,301** | 11,544 |
| Non-cash expenses other than depreciation and amortisation | **156,043** | 136,579 | **51,309** | 49,819 | **-** | - | **-** | (8) | **(39,190)** | 11,339 | **-** | - | **(53,705)** | (81,862) | **114,457** | 115,867 |

**52. Operating segments (cont'd.)**

(b) Geographical Segments:

The Group's activities are in Malaysia, therefore segmental reporting is not analysed by geographical locations.

**53. The Operations of Islamic Business**

**STATEMENT OF FINANCIAL POSITION OF MBSB BANK GROUP ("BANK GROUP") AS AT 31 DECEMBER 2019**

| | | Bank Group | |
|---|---|---|---|
| | | 2019 | 2018 |
| | Note | RM'000 | RM'000 |
| **Assets** | | | |
| Cash and short-term funds | (a) | **1,829,715** | 3,242,228 |
| Deposits and placements with banks and other financial institutions | (a) | **873,515** | 776,739 |
| Derivative financial assets | | **4,239** | 67 |
| Financial investments at fair value through other comprehensive income ("FVOCI") | (b) | **10,694,644** | 5,097,105 |
| Financial investments at amortised cost | (c) | **494,705** | 20,350 |
| Financing and advances | (d) | **32,807,317** | 31,806,617 |
| Other receivables | (e) | **548,207** | 578,064 |
| Investment in subsidiary | | **-** | - |
| Investment in joint venture | | **-** | - |
| Statutory deposits with Bank Negara Malaysia | | **1,090,000** | 1,053,000 |
| Investment property | | **820** | 820 |
| Property and equipment | | **25,444** | 20,923 |
| Intangible assets | | **115,559** | 104,692 |
| Right-of-use assets | | **16,821** | - |
| Tax recoverable | | **65,978** | 74,587 |
| **Total assets** | | **48,566,964** | 42,775,192 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 53. The Operations of Islamic Business (cont'd.)

**STATEMENT OF FINANCIAL POSITION OF MBSB BANK GROUP ("BANK GROUP") AS AT 31 DECEMBER 2019 (cont'd.)**

| | Note | Bank Group 2019 RM'000 | Bank Group 2018 RM'000 |
|---|---|---|---|
| **Liabilities** | | | |
| Deposits from customers | (f) | **25,271,951** | 24,209,449 |
| Deposits and placements of banks and other financial institutions | (g) | **10,621,769** | 8,578,851 |
| Derivative financial liabilities | | **1** | 2 |
| Other payables | (h) | **571,744** | 515,834 |
| Lease liabilities | | **17,130** | - |
| Recourse obligation on financing sold | | **2,481,251** | 2,135,518 |
| Sukuk - MBSB Structured Covered ("SC") Murabahah | | **1,664,973** | 1,968,075 |
| Sukuk Wakalah | | **1,293,075** | - |
| Deferred tax liabilities | | **94,739** | 41,552 |
| Provision for zakat | | **8,192** | 13,000 |
| **Total liabilities** | | **42,024,825** | 37,462,281 |
| | | | |
| **Equity** | | | |
| Share capital | | **5,159,859** | 4,625,859 |
| Reserves | | **1,382,280** | 687,052 |
| **Total equity** | | **6,542,139** | 5,312,911 |
| | | | |
| **Total liabilities and equity** | | **48,566,964** | 42,775,191 |
| | | | |
| **Commitments and contingencies** | | **5,069,104** | 6,078,479 |

The accompanying notes provide further details on the balances as at reporting date.

**53. The Operations of Islamic Business (cont'd.)**

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF MBSB BANK GROUP ("BANK GROUP") FOR THE YEAR ENDED 31 DECEMBER 2019**

| | Bank Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Income derived from investment of depositors' funds | **2,189,304** | 1,800,046 |
| Income derived from investment of shareholders' funds | **689,549** | 252,918 |
| Net allowance for impairment on financing and advances and other financial assets | **(156,043)** | (135,694) |
| Total distributable income | **2,722,810** | 1,917,270 |
| Income attributable to depositors and others | **(1,617,541)** | (1,126,948) |
| Total net income | **1,105,269** | 790,322 |
| Personnel expenses | **(241,652)** | (180,456) |
| Other overhead expenses | **(110,427)** | (91,872) |
| Profit before taxation and zakat | **753,190** | 517,994 |
| Taxation | **(203,172)** | (121,116) |
| Zakat | **828** | (13,000) |
| Profit for the year | **550,846** | 383,878 |
| Other comprehensive income, net of tax: | | |
| Movement in fair value reserve, which may be reclassified subsequently to profit or loss | **144,382** | 10,667 |
| **Total comprehensive income for the year** | **695,228** | 394,545 |

**(a) Cash and short-term funds and deposits and placements with banks and other financial institutions**

| | | Bank Group | |
|---|---|---|---|
| | | **2019** | **2018** |
| | | **RM'000** | **RM'000** |
| (a) | Cash and balances with banks and other financial institutions | **135,579** | 179,508 |
| | Money at call and deposit placements maturing within one month | **1,694,136** | 3,062,720 |
| | | **1,829,715** | 3,242,228 |
| (b) | Deposits and placements with banks and other financial institutions with original maturity of more than one month | | |
| | Licensed Islamic banks | **873,515** | 776,739 |
| | | **2,703,230** | 4,018,967 |

The ECL for cash and short-term funds and deposits and placements with banks and other financial institutions above is nil (2018: nil).

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**53. The Operations of Islamic Business (cont'd.)**

**(b) Financial investments at FVOCI**

| | Bank Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| **At fair value** | | |
| **Money Market Instruments** | | |
| Malaysian Government Investment Issues | **7,530,627** | 2,154,192 |
| **Debt securities:** | | |
| In Malaysia | | |
| Private and Islamic debt securities | **1,109,787** | 1,060,628 |
| Government Guaranteed debt securities | **2,054,230** | 1,882,285 |
| | **10,694,644** | 5,097,105 |

The carrying amount of financial investments measured at FVOCI is its fair value. Accordingly, the recognition of an impairment loss does not affect the carrying amount of those assets, but is reflected as a debit to profit or loss or retained earnings, and credit to other comprehensive income.

ECL movement for financial investments at FVOCI:

| | Bank Group | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| At 1 January 2019 | **-** | **-** | **-** | **-** |
| Total charged to profit or loss: | **18** | **-** | **-** | **18** |
| Change in credit risk | **18** | **-** | **-** | **18** |
| At 31 December 2019 | **18** | **-** | **-** | **18** |

There was no ECL for financial investments at FVOCI during the year 2018.

**53. The Operations of Islamic Business (cont'd.)**

**(c) Financial investments at amortised cost**

| | Bank Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| **At amortised cost** | | |
| **Quoted securities:** | | |
| In Malaysia | | |
| Private and Islamic debt securities | **494,857** | 20,356 |
| Less: ECL stage 1 | **(152)** | (6) |
| | **494,705** | 20,350 |

ECL movement for financial investments at amortised cost:

| | Bank Group | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| ECL at 1 January 2019 | **6** | **-** | **-** | **6** |
| Total charge to profit or loss - Change in credit risk | **146** | **-** | **-** | **146** |
| ECL at 31 December 2019 | **152** | **-** | **-** | **152** |

| | Bank Group | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| ECL upon adoption of MFRS 9 as at 1 January 2018 | - | - | - | - |
| Total charge to profit or loss - Change in credit risk | 6 | - | - | 6 |
| ECL at 31 December 2018 | 6 | - | - | 6 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**53. The Operations of Islamic Business (cont'd.)**

**(d) Financing and advances**

| | Bank Group 2019 RM'000 | Bank Group 2018 RM'000 |
|---|---|---|
| **(i) By type** | | |
| **At amortised cost** | | |
| Term financing | | |
| - Personal financing | **19,994,419** | 20,562,117 |
| - Property financing | **5,169,539** | 4,340,081 |
| - Hire purchase receivables | **808,958** | 781,118 |
| - Bridging financing | **593,906** | 716,015 |
| - Auto financing | **160,479** | 213,898 |
| - Other term financing | **5,949,892** | 5,456,952 |
| Trust receipts | **-** | 51,525 |
| Revolving credit | **703,389** | 743,218 |
| Staff financing | **44,798** | 41,277 |
| Cashline | **3,663** | - |
| Trade Finance | **560,978** | 138,473 |
| Gross financing and advances | **33,990,021** | 33,044,674 |
| Less: ECL | | |
| - Stage 1 | **(401,290)** | (346,537) |
| - Stage 2 | **(368,934)** | (455,639) |
| - Stage 3 | **(412,480)** | (435,881) |
| Net financing and advances | **32,807,317** | 31,806,617 |

## 53. The Operations of Islamic Business (cont'd.)

### (d) Financing and advances (cont'd.)

#### (ii) Movement in gross financing and advances

| | Bank Group | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| Gross carrying amount as at 1 January 2019 | **28,314,877** | **3,937,504** | **792,293** | **33,044,674** |
| Transfer to stage 1 | **908,357** | **(820,433)** | **(87,924)** | **-** |
| Transfer to stage 2 | **(1,133,626)** | **1,310,635** | **(177,009)** | **-** |
| Transfer to stage 3 | **(135,267)** | **(253,106)** | **388,373** | **-** |
| New financing/disbursement during the year | **5,007,227** | **460,943** | **66,694** | **5,534,864** |
| Repayment during the year | **(3,950,263)** | **(521,477)** | **(61,227)** | **(4,532,967)** |
| Other movements | **53,982** | **(7,357)** | **118,717** | **165,342** |
| Write-offs | **-** | **-** | **(221,892)** | **(221,892)** |
| Gross carrying amount as at 31 December 2019 | **29,065,287** | **4,106,709** | **818,025** | **33,990,021** |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 53. The Operations of Islamic Business (cont'd.)

### (d) Financing and advances (cont'd.)

#### (ii) Movement in gross financing and advances (cont'd.)

| | Bank Group | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| Gross carrying amount upon adoption of MFRS 9 as at 1 January 2018 | 729,499 | 247,871 | 111,424 | 1,088,794 |
| Vested from holding company on 2 April 2018 | 27,853,305 | 3,060,833 | 735,137 | 31,649,275 |
| Transfer to stage 1 | 686,430 | (671,870) | (14,560) | - |
| Transfer to stage 2 | (1,411,984) | 1,491,251 | (79,267) | - |
| Transfer to stage 3 | (204,425) | (229,280) | 433,705 | - |
| New financing/disbursement during the year | 3,686,809 | 534,453 | 32,166 | 4,253,428 |
| Repayment during the year | (3,134,981) | (427,040) | (117,630) | (3,679,651) |
| Other movements | 109,548 | (69,114) | 141,080 | 181,514 |
| Write-offs | - | - | (566,315) | (566,315) |
| Transfer from financial assets held-for-sale | 676 | 400 | 116,553 | 117,629 |
| Gross carrying amount as at 31 December 2018 | 28,314,877 | 3,937,504 | 792,293 | 33,044,674 |

**53. The operations of Islamic business (cont'd.)**

**(d) Financing and advances (cont'd.)**

**(iii) Movement of ECL for financing and advances**

| | Bank Group | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2019** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| ECL as at 1 January 2019 | **346,537** | **455,639** | **435,881** | **1,238,057** |
| Charged to profit or loss | **54,753** | **(86,705)** | **198,493** | **166,541** |
| Changes in the ECL: | | | | |
| - Transfer to stage 1 | **132,081** | **(90,961)** | **(41,120)** | **-** |
| - Transfer to stage 2 | **(19,073)** | **112,919** | **(93,846)** | **-** |
| - Transfer to stage 3 | **(1,812)** | **(60,925)** | **62,737** | **-** |
| New financing/disbursement during the year | **110,426** | **39,028** | **38,274** | **187,728** |
| Repayment during the year | **(169,008)** | **(170,704)** | **(51,848)** | **(391,560)** |
| Change in credit risk parameters | **46,898** | **157,609** | **327,419** | **531,926** |
| Changes to model assumptions and methodologies ^ | **(44,759)** | **(73,671)** | **(43,123)** | **(161,553)** |
| Write-offs | **-** | **-** | **(221,894)** | **(221,894)** |
| ECL as at 31 December 2019 | **401,290** | **368,934** | **412,480** | **1,182,704** |

^ The changes to model assumptions and methodologies were in relation to incorporation of additional macroeconomic variables ("MEV") to account for potential impact from various external factors and incorporation of cure rates to the loss given default ("LGD") model.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**53. The operations of Islamic business (cont'd.)**

**(d) Financing and advances (cont'd.)**

**(iii) Movement of ECL for financing and advances**

| | Bank Group | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| ECL upon adoption of MFRS 9 as at 1 January 2018 | 16,691 | 6,665 | 45,716 | 69,072 |
| Vested from holding company | 492,316 | 444,705 | 538,420 | 1,475,441 |
| - ECL as at 2 April 2018 | 454,139 | 432,125 | 538,420 | 1,424,684 |
| - Subsequent adjustment of ECL* | 38,177 | 12,580 | - | 50,757 |
| Charged to profit or loss | (163,136) | 3,584 | 310,952 | 151,400 |
| Changes in the ECL: | | | | |
| - Transfer to stage 1 | 12,696 | (12,468) | (228) | - |
| - Transfer to stage 2 | (164,406) | 176,183 | (11,777) | - |
| - Transfer to stage 3 | (81,168) | (137,706) | 218,874 | - |
| New financing/disbursement during the year | 72,027 | 43,512 | 26,587 | 142,126 |
| Repayment during the year | (180,772) | (179,663) | (98,714) | (459,149) |
| Change in credit risk parameters | 178,487 | 113,726 | 176,210 | 468,423 |
| Write-offs | - | - | (566,315) | (566,315) |
| Transfer from financial assets held-for-sale | 666 | 685 | 107,108 | 108,459 |
| ECL as at 31 December 2018 | 346,537 | 455,639 | 435,881 | 1,238,057 |

* Revision of ECL upon adoption of MFRS 9 Financial Instruments had been made post vesting of assets and liabilities. The adjustment of the ECL amounting to RM50,757,000 was subsequently transferred to MBSB Bank.

**53. The operations of Islamic business (cont'd.)**

**(d) Financing and advances (cont'd.)**

**(iv) Movement for impaired financing and advances**

| | Bank Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Balance as at 1 January | **792,293** | 111,424 |
| Impaired financing vested from holding company | **-** | 735,137 |
| Classified as impaired during the year | **455,067** | 465,871 |
| Reclassified as non-impaired | **(264,933)** | (93,827) |
| Amount recovered | **(61,227)** | (117,630) |
| Amount written off | **(221,892)** | (566,315) |
| Other movements | **118,717** | 141,080 |
| Transfer from financial assets held-for-sale | **-** | 116,553 |
| Balance as at 31 December | **818,025** | 792,293 |
| Gross impaired as a percentage of gross financing and advances | **2.41%** | 2.40% |

**(e) Other receivables**

| | Bank Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Financing to related companies | **661,555** | 635,993 |
| Amount due from holding company | **78,416** | 98,666 |
| Prepayments and deposits | **8,110** | 3,765 |
| Deferred expenses | **2,208** | 2,470 |
| Sundry receivables | **69,908** | 88,132 |
| | **820,197** | 829,026 |
| Less: ECL at stage 3 | **(271,990)** | (250,962) |
| | **548,207** | 578,064 |

There was no transfer of ECL out of stage 3 during the financial year and previous year for financial assets under other receivables.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 53. The operations of Islamic business (cont'd.)

### (f) Deposits from customers

| | Bank Group 2019 RM'000 | Bank Group 2018 RM'000 |
|---|---|---|
| **(i) By type of deposit:** | | |
| Non-Mudharabah Funds: | | |
| Commodity Murabahah Term Deposits | **24,738,093** | 23,907,371 |
| Demand deposits | **192,380** | 225,520 |
| Savings deposits | **341,478** | 76,558 |
| | **25,271,951** | 24,209,449 |

| | Bank Group 2019 RM'000 | Bank Group 2018 RM'000 |
|---|---|---|
| **(ii) Maturity structure of term deposits are as follows:** | | |
| Due within six months | **16,480,775** | 17,172,705 |
| More than six months to one year | **5,426,032** | 4,818,107 |
| More than one year to three years | **1,891,341** | 723,813 |
| More than three years | **939,945** | 1,192,746 |
| | **24,738,093** | 23,907,371 |

| | Bank Group 2019 RM'000 | Bank Group 2018 RM'000 |
|---|---|---|
| **(iii) By type of customers:** | | |
| Government and statutory bodies | **12,696,568** | 14,746,960 |
| Business enterprises | **7,229,721** | 6,371,297 |
| Individuals | **5,345,662** | 3,091,192 |
| | **25,271,951** | 24,209,449 |

**53. The operations of Islamic business (cont'd.)**

**(g) Deposits and placements of banks and other financial institutions**

| | Bank Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| **(i) By type of deposit:** | | |
| Non-Mudharabah Funds: | | |
| Other financial institutions: | | |
| - Licensed Investment Banks | **152,390** | - |
| - Licensed Islamic Banks | **112,937** | - |
| - Other Financial Institutions | **10,356,442** | 8,578,851 |
| | **10,621,769** | 8,578,851 |

**(h) Other payables**

| | Bank Group | |
|---|---|---|
| | **2019** | **2018** |
| | **RM'000** | **RM'000** |
| Amount due to related companies | **33,668** | 35,437 |
| Al-Mudharabah security funds | **137,309** | 123,401 |
| ECL for commitments and contingencies (i) | **65,239** | 93,943 |
| Other provisions and accruals | **70,260** | 82,292 |
| Deferred income | **34,838** | 12,649 |
| Sundry creditors | **230,430** | 168,112 |
| | **571,744** | 515,834 |

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**53. The operations of Islamic business (cont'd.)**

**(h) Other payables (cont'd.)**

**(i) ECL for commitments and contigencies**

Movement of ECL for commitments and contingencies is as follows:

| | Bank Group | | | |
|---|---|---|---|---|
| **2019** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| ECL as at 1 January 2019 | **52,717** | **36,630** | **4,596** | **93,943** |
| Total charged to profit or loss | **(8,772)** | **(18,828)** | **(1,104)** | **(28,704)** |
| Changes in the ECL: | | | | |
| - Transfer to stage 1 | **4,854** | **(2,350)** | **(2,504)** | **-** |
| - Transfer to stage 2 | **(4,890)** | **5,190** | **(300)** | **-** |
| - Transfer to stage 3 | **(791)** | **(4,802)** | **5,593** | **-** |
| New financing/disbursement during the year | **25,153** | **1,791** | **426** | **27,370** |
| Repayment/drawdown to financing during the year | **(12,460)** | **(6,063)** | **(621)** | **(19,144)** |
| Change in credit risk parameters | **(14,280)** | **(4,746)** | **(3,227)** | **(22,253)** |
| Changes to model assumptions and methodologies ^ | **(6,358)** | **(7,848)** | **(471)** | **(14,677)** |
| ECL as at 31 December 2019 | **43,945** | **17,802** | **3,492** | **65,239** |

^ The changes to model assumptions and methodologies were in relation to incorporation of additional macroeconomic variables ("MEV") to account for potential impact from various external factors and incorporation of cure rates to the loss given default ("LGD") model.

**53. The operations of Islamic business (cont'd.)**

**(h) Other payables (cont'd.)**

**(i) ECL for commitments and contigencies (cont'd.)**

| | Bank Group | | | |
|---|---|---|---|---|
| **2018** | **Stage 1 RM'000** | **Stage 2 RM'000** | **Stage 3 RM'000** | **Total RM'000** |
| ECL upon adoption of MFRS 9 as at 1 January 2018 | 4,659 | 863 | - | 5,522 |
| Vested from holding company on 2 April 2018 | 69,751 | 35,157 | 1,515 | 106,423 |
| Total charged to profit or loss | (21,694) | 610 | 3,081 | (18,002) |
| Changes in the ECL: | | | | |
| - Transfer to stage 1 | 217 | (217) | - | - |
| - Transfer to stage 2 | (28,677) | 28,677 | - | - |
| - Transfer to stage 3 | (3,008) | (501) | 3,509 | - |
| New financing/disbursement during the year | 21,197 | 5,774 | 203 | 27,174 |
| Repayment/drawdown to financing during the year | (22,531) | (20,795) | (619) | (43,945) |
| Change in credit risk parameters | 11,109 | (12,328) | (12) | (1,231) |
| ECL as at 31 December 2018 | 52,716 | 36,631 | 4,596 | 93,943 |

**54. Business Combination**

As allowed by MFRS 3, *Business Combinations*, the Group had previously accounted for the acquisition of MBSB Bank Berhad (formerly known as Asian Finance Bank Berhad) on 7 February 2018 using the provisional fair values on the acquisition date.

During the year, the Group completed its allocation of the assets acquired and liabilities assumed. The fair value adjustments and intangible assets identified on the acquisition were based on finalised purchase allocation and fair value exercise.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**54. Business Combination (cont'd.)**

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

**i) Fair value of consideration transferred**

| | Group RM'000 |
|---|---|
| Purchase consideration satisfied via cash | **396,894** |
| Purchase consideration satisfied via issuance of shares (225,507,974 ordinary shares) | **266,099** |
| | **662,993** |

**ii) Identifiable assets acquired and liabilities assumed**

| | Group RM'000 |
|---|---|
| **Assets** | |
| Cash and short-term funds | **577,970** |
| Derivative financial assets | **293** |
| Financial investments at FVOCI | **227,966** |
| Financial investments at amortised cost | **602,736** |
| Financing and advances | **998,250** |
| Other assets | **8,165** |
| Statutory deposits with Bank Negara Malaysia | **24,174** |
| Property and equipment | **2,517** |
| Investment Properties | **820** |
| Deferred tax assets | **626** |
| Tax recoverable | **5,750** |
| Banking license | **47,415** |
| Core deposits | **6,216** |
| | **2,502,898** |
| **Liabilities** | |
| Deposits from customers | **1,184,855** |
| Deposits and placement of banks and other financial institution | **769,273** |
| Other payables | **20,936** |
| Deferred tax liabilities (arising from banking license and core deposits) | **12,872** |
| | **1,987,936** |
| | **514,962** |

**54. Business Combination (cont'd.)**

**iii) Net cash outflow arising from acquisition**

| | Group RM'000 |
|---|---|
| Purchase consideration satisfied via cash | **266,099** |
| Less: Cash and short-term funds acquired | **(577,970)** |
| | **(311,871)** |

**iv) Goodwill**

Goodwill was recognised as a result of the acquisition as follows:

| | Group RM'000 |
|---|---|
| Fair value of consideration transferred | **662,993** |
| Less: Fair value of identifiable net assets | **(514,962)** |
| Goodwill | **148,031** |
| | |
| Goodwill is allocated to the following: | |
| Goodwill - Corporate Banking | **146,256** |
| Goodwill - Retail Banking | **1,775** |
| | **148,031** |

**55. Significant events**

**(i) Increase of investment in MBSB Bank Berhad by RM534 million**

On 13 December 2019, MBSB Bank Berhad increased its issued and paid-up capital from RM4,625,859,288 to RM5,159,859,288 via the issuance of 534,000,000 new ordinary shares which was subscribed by the Company.

**(ii) Issuance of RM1.3 billion Tier-2 Sukuk Wakalah**

On 20 December 2019, MBSB Bank Berhad issued RM1.3 billion Tier-2 Sukuk Wakalah under the Sukuk Wakalah Programme of RM10.0 billion in nominal value as disclosed in Note 29.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

**55. Significant events (cont'd.)**

**(iii) Transfer of assets to MBSB Bank Berhad**

During the year, the Company progressively transferred the following assets to MBSB Bank Berhad:

| | Group RM'000 |
|---|---|
| Mortgage converted to Islamic property financing | |
| i) Converted on 20 April 2019 | **25,079** |
| ii) Converted on 27 July 2019 | **39,961** |
| iii) Converted on 24 August 2019 | **20,018** |
| iv) Converted on 28 September 2019 | **23,372** |
| v) Converted on 26 October 2019 | **16,454** |

**(iv) Disposal of hotel operation**

On 10 July 2019, Sigmaprise Sdn. Bhd. ("Sigmaprise"), a subsidiary of the Company entered into a sale and purchase agreement ("SPA") with Nautical Insight Sdn. Bhd. ("the Purchaser") to dispose of a hotel owned by Sigmaprise in Melaka. The SPA includes the disposal of the land title of the hotel.

On 23 December 2019, Sigmaprise entered into a shares purchase agreement with the vendor to dispose of its subsidiary, Farawide Sdn. Bhd. ("Farawide"). The principal activity of Farawide is the provision of hospitality services to the hotel owned by Sigmaprise.

The sale of the hotel and Farawide was completed on 31 December 2019. Following the completion, the operation of the hotel is under the new management by the Purchaser.

Since entering into the SPA up to the completion of the sale, the Group recorded a loss from discontinued operation of the hotel of RM361,000 as disclosed in the statements of profit or loss and other comprehensive income.

**56. Subsequent events**

**Impact of novel coronavirus ("Covid-19")**

The existence of the novel coronavirus ("Covid-19") was confirmed subsequent to December 2019. On 11 March 2020, the World Health Organisation declared the Covid-19 outbreak to be a pandemic in recognition of its rapid spread across the globe, with most countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus, for instance, by declaring travel restrictions and quarantine measures. Consequently, there is a significant increase in economic uncertainty globally, which is evidenced by the increased volatility in financial markets, commodity prices and currency exchange rates.

As a preventive measure towards Covid-19, the Malaysian government also implemented a movement control order ("MCO") on 18 March 2020 that lasted for 56 days until 12 May 2020 (as at date of printing). The measure entailed a general prohibition of mass movements or gatherings and the closure of all government and private premises except for those involved in essential services (such as water and banking, amongst others). The MCO is anticipated to lead to decreased gross domestic product levels for 2020, disruptions to business operations and reduced consumer spending.

The Malaysian government had subsequently launched two economic stimulus packages on 27 February 2020 and 27 March 2020 with a combined value of RM250 billion to improve the welfare of Malaysian citizens and businesses by alleviating income losses resulting from the MCO. The stimulus packages largely assume one-off cash payments to households and individuals, discounts on utility bills and deferments of contributions to the Employees Provident Fund. The bulk of the payments are scheduled to be disbursed in April and May 2020. The package also included other incentives, cash flow reliefs, wage subsidies and loan guarantees to companies.

In a letter to the heads of financial institutions dated 24 March 2020, Bank Negara Malaysia ("BNM") had announced a six-month automatic moratorium for individuals and small and medium-sized enterprises on repayments of all ringgit-denominated loans or financing except credit cards that are not in arrears exceeding 90 days as at 1 April 2020. BNM clarified that banks should not impose penalty charges on the deferred amounts nor classify them as non-performing. In the same letter, BNM also encouraged banks to facilitate requests for a moratorium for corporate borrowers.

The Group and the Company consider this outbreak as well as the resulting MCO, economic stimulus package and moratorium on repayments as non-adjusting post balance sheet events. Consequently, there is no impact on the recognition and measurement of assets and liabilities as at 31 December 2019 in the Group and the Company's financial statements. As the situation continues to be fluid and rapidly evolving, the Group and the Company do not consider it practicable to provide a quantitative estimate of the potential impact of these economic conditions on the Group and the Company.

The impact of this outbreak and its associated events will be incorporated into the Group's and the Company's MFRS 9 estimates of expected credit loss provisions in 2020.

# Notes To The Financial Statements

For the Financial Year Ended 31 December 2019 (cont'd.)

## 57. Comparative information

The following comparative amount has been restated to conform with the current year's presentation which more accurately reflects the nature of the relevant transactions. The Group's prior financial year's results were not affected by this restatement.

| Group | As previously reported RM'000 | Adjustment RM'000 | As restated RM'000 |
|---|---|---|---|
| Revenue | 3,145,937 | (283,213) | 2,862,724 |

# Analysis of Shareholdings

As at 29 April 2020

Total number of Issued Shares : 6,713,401,615
Class of Shares : Ordinary Shares
Voting Rights : One Vote per Ordinary Share

**ANALYSIS OF ORDINARY SHAREHOLDINGS**

| Size of holdings | No. of Holders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 – 99 | 1,739 | 4.783 | 60,937 | 0.001 |
| 100 – 1,000 | 5,274 | 14.507 | 4,258,745 | 0.063 |
| 1,001 – 10,000 | 15,579 | 42.854 | 78,478,646 | 1.169 |
| 10,001 – 100,000 | 11,666 | 32.090 | 354,844,736 | 5.286 |
| 100,001 – 335,670,079 (*) | 2,095 | 5.763 | 1,946,628,869 | 28.996 |
| 335,670,080 AND ABOVE (**) | 1 | 0.003 | 4,329,129,682 | 64.485 |
| TOTAL | 36,354 | 100.000 | 6,713,401,615 | 100.000 |

Remark : * - Less Than 5% Of Issued Shares
** - 5% And Above Of Issued Shares

**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 | 266,013 | 0.004% | - | - | 266,013 | 0.004% |

Note: Tan Sri Abdul Halim bin Ali, by virtue of his total direct interests of 266,013 shares in MBSB, is deemed interested in the shares in all MBSB's subsidiaries to the extent that MBSB has interest.

**GROUP PRESIDENT AND CHIEF EXECUTIVE OFFICERS' 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 |
| Datuk Seri Ahmad Zaini bin Othman | 568,437 | 0.009% | - | - | 568,437 | 0.009% |

Note: Datuk Seri Ahmad Zaini bin Othman, by virtue of his total direct interests of 568,437 shares in MBSB, is deemed interested in the shares in all MBSB's subsidiaries to the extent that MBSB has interest.

# Analysis of Shareholdings

As at 29 April 2020

**SUBSTANTIAL SHAREHOLDERS**

| No. | Name | Holdings | % |
|---|---|---|---|
| 1. | EMPLOYEES PROVIDENT FUND BOARD | 4,329,129,682 | 64.485 |

Note:
Total direct interest of EPF held under Citigroup Nominees (Tempatan) Sdn Bhd

**THIRTY LARGEST SHAREHOLDERS**

| No. | Name | Holdings | % |
|---|---|---|---|
| 1. | CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD | 4,329,129,682 | 64.485 |
| 2. | MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD MALAYAN BANKING BERHAD (ECDG HEDGING) | 250,000,000 | 3.724 |
| 3. | CGS-CIMB NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR CGS-CIMB SECURITIES (SINGAPORE) PTE LTD (RETAIL CLIENTS) | 183,483,305 | 2.733 |
| 4. | HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR HSBC PRIVATE BANK (SUISSE) SA (CLIENT ASSETS) | 124,398,715 | 1.853 |
| 5. | RHB NOMINEES (ASING) SDN BHD TADHAMON CAPITAL BSC CLOSED | 103,441,163 | 1.541 |
| 6. | CIMB GROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR DBS BANK LTD (SFS-PB) | 86,573,949 | 1.290 |
| 7. | PERMODALAN NASIONAL BERHAD | 67,022,652 | 0.998 |
| 8. | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR FONG SILING (CEB) | 41,000,000 | 0.611 |
| 9. | KHAZANAH NASIONAL BERHAD | 37,016,300 | 0.551 |
| 10. | HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND | 32,428,400 | 0.483 |
| 11. | HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND | 30,204,884 | 0.450 |
| 12. | MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HAWANG KIM LIAN | 20,000,075 | 0.298 |
| 13. | B-OK SDN BHD | 17,495,726 | 0.261 |
| 14. | HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING) | 16,644,511 | 0.248 |

| No. | Name | Holdings | % |
|---|---|---|---|
| 15. | AFFIN HWANG NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR CHUNG CHEE YANG | 15,759,120 | 0.235 |
| 16. | CITIGROUP NOMINEES (ASING) SDN BHD<br>CBNY FOR DIMENSIONAL EMERGING MARKETS VALUE FUND | 15,332,591 | 0.228 |
| 17. | AFFIN HWANG NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR CHUNG CHEE YANG (CHU0328C) | 14,523,773 | 0.216 |
| 18. | CARTABAN NOMINEES (ASING) SDN BHD<br>EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY<br>(WEST CLT OD67) | 13,923,000 | 0.207 |
| 19. | CITIGROUP NOMINEES (ASING) SDN BHD<br>CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA<br>INVESTMENT DIMENSIONS GROUP INC | 12,819,302 | 0.191 |
| 20. | DB (MALAYSIA) NOMINEE (ASING) SDN BHD<br>SSBT FUND WTAU FOR WISDOMTREE EMERGING MARKETS SMALLCAP<br>DIVIDEND FUND | 11,144,900 | 0.166 |
| 21. | TA NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR HENG TENG KUANG | 10,604,574 | 0.158 |
| 22. | CITIGROUP NOMINEES (ASING) SDN BHD<br>CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES | 8,145,383 | 0.121 |
| 23. | POSEIDON SENDIRIAN BERHAD | 7,374,859 | 0.110 |
| 24. | DB (MALAYSIA) NOMINEE (ASING) SDN BHD<br>SSBT FUND SD4N FOR ALBERTA INVESTMENT MANAGEMENT<br>CORPORATION | 7,206,400 | 0.107 |
| 25. | MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR LEAN SIEW SEE | 7,140,000 | 0.106 |
| 26. | TEE KOK THYE | 7,050,395 | 0.105 |
| 27. | HLB NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR TAN KIM HEUNG | 6,984,431 | 0.104 |
| 28. | LKK REALTY SDN BHD | 6,727,522 | 0.100 |
| 29. | DB (MALAYSIA) NOMINEE (ASING) SDN BHD<br>THE BANK OF NEW YORK MELLON FOR VANGUARD FTSE ALL-WORLD<br>EX-US SMALL-CAP INDEX FUND | 6,200,200 | 0.092 |
| 30. | CARTABAN NOMINEES (ASING) SDN BHD<br>STATE STREET LONDON FUND OD75 FOR ISHARES PUBLIC LIMITED<br>COMPANY | 6,199,900 | 0.092 |
| | TOTAL SHAREHOLDING OF THE THIRTY LARGEST SHAREHOLDERS | 5,495,975,712 | 81.864 |

# Schedule of Properties

| No. | Location | Tenure | No. of years | Expiry Date | Land Area (Sq. Metres) | Description | Ages of Building (Years) | Book Value (RM '000) | Date of Re-valuation/ Date of Acquirement |
|---|---|---|---|---|---|---|---|---|---|
| 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 | 29/7/2020 |
| 2 | A) Lot No. 3077 Title Pajakan Negeri No. 32340, Mukim Pegoh, Alor Gajah, Melaka. (phase 2C, A'Famosa resort)<br>B) 65 undeveloped detached house plots of land, Part of Phase 12, A' Famosa Resort Malaysia, Jalan Kemus, Simpang Ampat, Melaka.<br>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 | 24/1/2019 |
| 3 | 3 agricultural lots and 246 building lots, Mukim of Linggi, District of Port Dickson, Negeri Sembilan. | Leasehold | 60 (3 lots)<br>99 (246 lots) | 22.12.2046<br>08.11.2094 | 2,155,202.84 | Vacant Land | Nil | 34,961 | Properties acquired on 9/11/2010 |
| 4 | No.48, Jalan Dungun, Damansara Heights, Kuala Lumpur. | Freehold | Nil | Nil | 1,595.28 | Office Building | 31 | 27,142 | 23/9/2019 |
| 5 | 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 | 21 | 17,025 | 26/3/2019 |

| No. | Location | Tenure | No. of years | Expiry Date | Land Area (Sq. Metres) | Description | Ages of Building (Years) | Book Value (RM '000) | Date of Re-valuation/ Date of Acquirement |
|---|---|---|---|---|---|---|---|---|---|
| 6 | 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 | 3 | 9,600 | Properties acquired on 30/4/2015 |
| 7 | 56 Vacant industrial lots located in Mukim of Taboh Naning, Alor Gajah, Melaka. | Freehold | Nil | Nil | 274,782.68 | Vacant Land | Nil | 4,630 | 25/1/2019 |
| 8 | 5 units shop office known as unit no. 11-1, 11-2, 11-3, 11-16 and 15-13 Port Tech Tower, Klang. | Leasehold | 99 | 08.05.2093 | - | Office unit | 5 | 2,466 | 30/1/2019 |
| 9 | Lot 1520 GRN 60632 Bandar Segamat, Segamat, Johor. | Freehold | Nil | Nil | 7,001 | Vacant Land | Nil | 2,000 | 28/1/2019 |
| 10 | Geran No. 6951 Lot 3243, Bandar Kuala Terengganu, Daerah Kuala Terengganu, Negeri Terengganu. | Freehold | Nil | Nil | 197 | Office Building | 20 | 512.10 | 7/9/2019 |

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