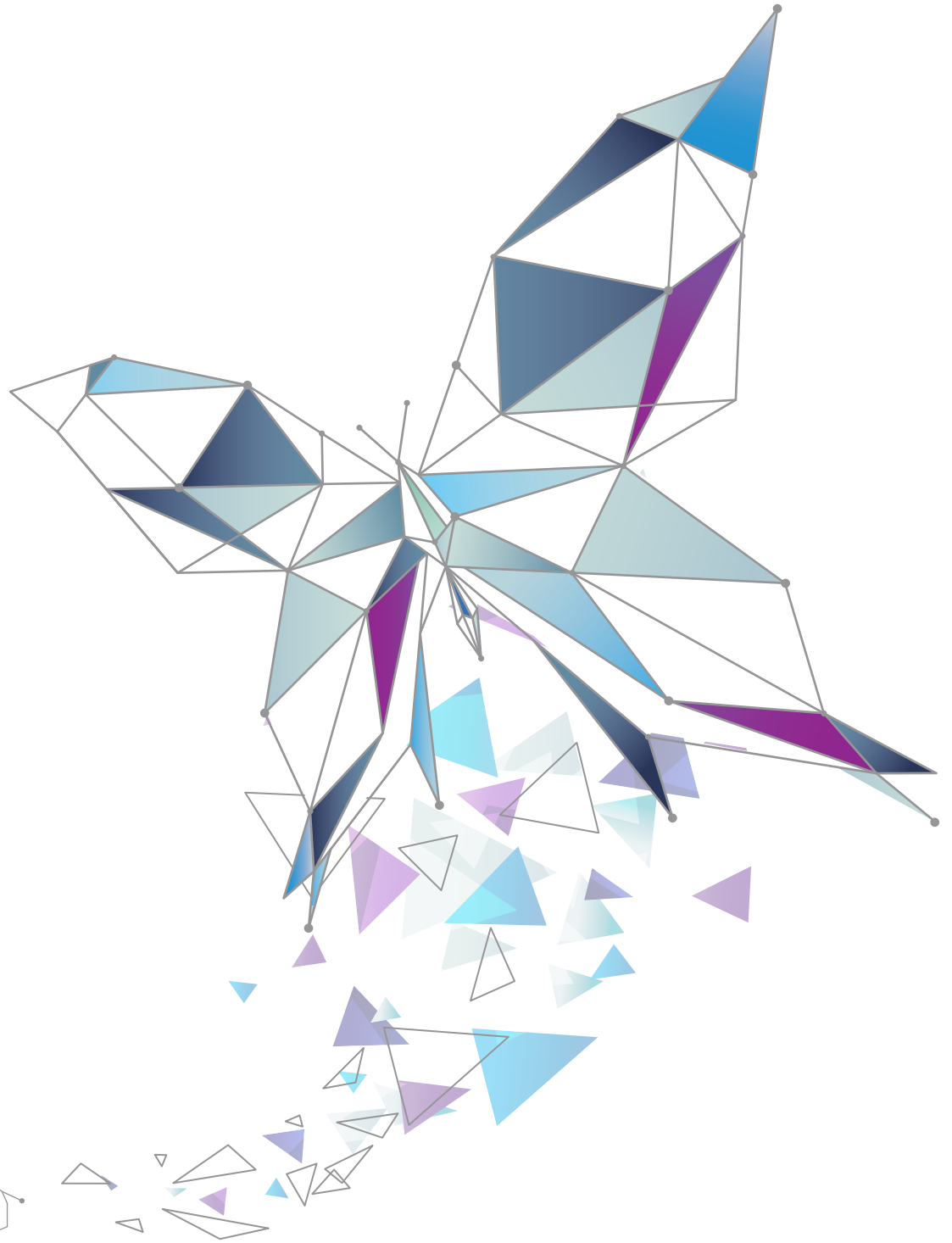




MALAYSIA BUILDING SOCIETY BERHAD (9417-K)
A Subsidiary of the EPF

Your Financial Provider



JOURNEY TOWARDS

TECHNOLOGY

TRANSFORMATION

annual report 2018



JOURNEY TOWARDS **TECHNOLOGY** **TRANSFORMATION**

At MBSB, we are constantly striving to provide innovative financial products and services to our customers while contributing to our nation's economic development. As such, we have embarked on a mission to leverage state-of-the-art technologies in order to significantly enhance our performance.

On the cover, the stylised image of a caterpillar transforming into a butterfly mirrors how we are evolving rapidly in our quest to fulfil our true potentials.

CONTENTS

OVERVIEW

- 02 Our Profile
- 03 Corporate Information
- 04 Corporate Structure
- 05 Awards and Accolades
- 06 Calendar of Events

LEADERSHIP

- 11 Profile of the Board of Directors: MBSB
- 16 Profile of the Board of Directors: MBSB Bank
- 25 Profile of Shariah Advisory Committee
- 30 Profile of Group President and CEO
- 32 Management Team:
- 34 Profile of Management Team
- 38 MBSB Bank Vision and Values
- 39 MBSB Bank Branches

MANAGEMENT DISCUSSION AND ANALYSIS

- 43 Strategic Review
- 48 Financial Review
- 52 Business Review
- 57 Risk Review

CORPORATE GOVERNANCE

- 60 Corporate Governance Overview Statement
- 69 Additional Compliance Statement
- 71 Statement on Risk Management and Internal Control
- 85 Report of the Audit Committee

FINANCIAL STATEMENTS

- 92 Financial Statements

STAKEHOLDER INFORMATION

- 246 Analysis of Shareholdings
- 249 Schedule of Properties
- 250 Notice of Annual General Meeting
- 255 Statement Accompanying the Notice of Annual General Meeting
- 256 Annexure 1

Proxy Form

OUR PROFILE

WHO WE ARE

MALAYSIA BUILDING SOCIETY BERHAD HISTORY IN BRIEF

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

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

MALAYSIA BUILDING SOCIETY BERHAD CORPORATE HIGHLIGHTS

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

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

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

The BAFIA has been repealed and replaced with FSA 2013.

On 6 November 2017, MBSB entered into the Share Purchase Agreement with the shareholders of Asian Finance Bank Berhad (“AFB/Vendors”) for the proposed acquisition by MBSB of the entire equity interest in AFB for an aggregate purchase of RM644,952,807.66 to be

satisfied by way of cash amounting to RM396,894,036.26 and the issuance of 225,507,974 Consideration Shares at an issue price of RM1.10 per Consideration Share (“the Acquisition”).

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Abdul Halim bin Ali
*Chairman/ Non-Independent
Non-Executive Director*

Encik Lim Tian Huat
*Senior Independent
Non-Executive Director*

Ir. Moslim bin Othman
*Independent Non-Executive
Director*

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

GROUP PRESIDENT AND CHIEF EXECUTIVE OFFICER

**Datuk Seri Ahmad Zaini bin
Othman**

COMPANY SECRETARIES

Koh Ai Hoon
(MAICSA 7006997)

Tong Lee Mee
(MAICSA 7053445)

REGISTRAR

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

AUDITORS

Ernst & Young
(Chartered Accountants)

REGISTERED OFFICE

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

STOCK EXCHANGE LISTING

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



COMPANY SECRETARY

KOH AI HOON
(MAICSA 7006997)

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

CORPORATE STRUCTURE

MALAYSIA BUILDING SOCIETY BERHAD
(9417-K)



AWARDS AND ACCOLADES



BEST SUKUK DEAL IN SOUTHEAST ASIA 2018



I LEAD



SUSTAINABLE PROPERTY BANKER OF THE YEAR



EQUITY & IPO DEAL OF THE YEAR

CALENDAR OF EVENTS

HIGHLIGHTS OF THE YEAR



5 JAN



16 JAN



23 JAN



26 JAN



30 JAN



10 FEB

JANUARY

5 January

SK Tambak Jawa

Back To School Programme

Central Regional Manager, Puan Faraheeda Ahmad Rejab handed school supplies to the students from SK Tambak Jawa for the back to school programme by Malaysia Building Society Berhad.

16 January

Residensi Hektar Gombak
Sales GallerySigning Ceremony with
Hektar Aneka Sdn Bhd

President and Chief Executive Officer, Datuk Seri Ahmad Zaini Othman at the Signing Ceremony of Hektar Aneka Sdn Bhd for the Islamic Financing Facility of Residensi Hektar Gombak.

23 January

Connexion Conference &
Event Centre @ NexusExtraordinary General
Meeting

An Extraordinary General Meeting (EGM) was held to seek approval from shareholders on the acquisition of Asian Finance Bank.

26 January

Malaysian RE

Townhall

President and Chief Executive Officer, Datuk Seri Ahmad Zaini Othman addressed issues pertaining the company's new direction at the townhall to all staff.

30 January

St Regis Hotel

Analyst briefing

President and Chief Executive Officer, Datuk Seri Ahmad Zaini Othman and Chief Financial Officer, Mr Tang Yow Sai presented the 2017 financial results to analysts.

FEBRUARY

10 February

Sime Darby Convention Centre

Townhall with Asian Finance
Bank (AFB) staff

A townhall was held to engage and inform all of Asian Finance Bank staff about the bank's new direction after being acquired by Malaysia Building Society Berhad.

CALENDAR OF EVENTS



24 February

Istana Budaya

Ola Bola The Musical

Malaysia Building Society Berhad brought school children to watch the musical about the Malaysian football team.

MARCH

31 March

One World Hotel

Malaysia Building Society Berhad Appreciation Night

It was a colourful night with Bollywood as the theme. There were performances from staff, as well as by guests artists. The night was hosted by Awal Ashaari.

APRIL

2 April

Hilton KL

Launch of new bank

Chairman, Tan Sri Abdul Halim Ali, President and Chief Executive Officer, Datuk Seri Ahmad Zaini Othman and former second Finance Minister YB Datuk Seri Abdul Johari Ghani at the launch of MBSB Bank which was attended by industry practitioners, clients as well as members of the media.

17 April

St Regis Hotel

Signing ceremony with Cagamas SRP

A partnership between MBSB Bank and Cagamas SRP was sealed to provide assurance for Skim Rumah Pertamaku, a home financing service catered to the bank's customers.

23 April

Hilton Hotel

Signing ceremony with FIS

MBSB Bank teamed up with FIS Asia Pacific Inc for an upgraded treasury management system.

MAY

12 May

FRIM Kepong

Tree Planting

The tree planting is a partnership with Forest Reserve Institute Malaysia (FRIM) where MBSB Bank staff volunteered to plant trees at FRIM, Kepong.

19 May

Rumah Pengasih Warga Prihatin (RPWP)

Iftar at Rumah Pengasih Warga Prihatin

Chief Operations Officer, Tuan Haji Asrul Hazli Salleh handed out Raya gifts to the children from Rumah Pengasih Warga Prihatin (RPWP) during the iftar programme.

28 May

St Regis Hotel

Analyst briefing

Q&A session during the analyst briefing for Malaysia Building Society Berhad's 1st quarter 2018 performance.

CALENDAR OF EVENTS



20 JUN



25 JUN



28 JUN



3 JUL



14 JUL



19 JUL



28 JUL



30 JUL

JUNE

20 June

Ministry of Finance**Tabung Harapan Malaysia**

Consistent with its purpose to be a bank that is socially responsible, MBSB Bank played its part by contributing RM1,000,000 to Tabung Harapan Malaysia (THM).

25 June

Connexion Conference & Event Centre @ Nexus**48th Annual General Meeting**

President and Chief Executive Officer, Datuk Seri Ahmad Zaini Othman presented the performance of Malaysia Building Society Berhad Group to the shareholders at its 48th Annual General Meeting (AGM).

28 June

Dorsett Grand Subang**Raya Open House**

Chairman, Tan Sri Abdul Halim Ali and President and Chief Executive Officer, Datuk Seri Ahmad Zaini Othman entertained corporate clients at MBSB Bank's Hari Raya Open House.

JULY

3 July

Wisma MBSB**High Achievement Award**

Chief Corporate Officer, Puan Azlina Mohd Rashad with recipients of the High Achievement Award.

14 July

PPR Kerinchi**Cooking For A Cause (Central Region)**

Cooking for a cause is a nourishment programme for the community at high density and low income areas in collaboration with Food Aid Foundation. It was attended by Lembah Pantai Member of Parliament, YB Fahmi Fadzil, seen here with Chief Corporate Officer Puan Azlina Mohd Rashad.

19 July

Kompleks Perbadanan Putrajaya**Signing ceremony with LPPSA**

A partnership with Lembaga Pembiayaan Perumahan Sektor Awam (LPPSA) to provide a joint-home ownership initiative, the Skim Pembiayaan Perumahan Bersama for civil servants.

28 July

Lavana Sports Centre**Badminton Tournament**

More than 100 staff participated in the badminton tournament organised by MBSB Bank's Sports Club.

30 JULY

St Regis Hotel**Analyst Briefing**

Chief Business Officer, Datuk Nor Azam M Taib presented MBSB Bank's second quarter financial results to analysts

CALENDAR OF EVENTS



AUGUST

4 August

Dewan Taman Robina,
Butterworth

**Cooking For A Cause &
Community Programme
(Northern Region)**

MBSB Bank staff volunteered and helped paint the community hall and also transformed a section of the hall into a mini library

7 August

Kg Tualang Sekah, Perak

Key handover ceremony

Head of Strategic Communications Department, Puan Zuhaznim Izzuddin handed the house key to Sejahtera programme recipient.

10 August

Eat, Shoots and Roots,
Damansara

Edible Garden

30 staff who participated were taught non cultivation gardening method using decompost items.

16 August

Lim Kok Wing University

**Sustainable Housing Future
Awards 2018**

MBSB Bank received the Sustainable Property Banker of the Year Award at the Sustainable Housing Future Awards 2018. MBSB Bank was represented by Executive Vice President, Wholesale Banking, Puan Nur Zarina Ghazali to receive the award.

18 August

Kidzania

Kidzania Experience

Children of MBSB Bank's staff learned about working in different industries as they participated in role playing activities in Kidzania.

27 August

SK Kebor Besar

**Impacting Lives Heightening
Aspirations (ILHAM) by
MBSB Bank**

Year 6 students from SK Kebor Besar were given activities to prepare them for UPSR examination.

SEPTEMBER

8 September

Pusat Jagaan Indah
Harapan, Muar

**Cooking For a Cause
(Southern Region)**

A CSR programme held at Pusat Jagaan Indah Harapan in collaboration with Food Aid Foundation where staff volunteered to prepare food for the ones in need.

OCTOBER

3 October

Sasana Kijang

**Global Islamic Finance Forum
(GIFF)**

Islamic finance practitioners worldwide gathered at the event to exchange ideas and President and Chief Executive Officer, Datuk Seri Ahmad Zaini Othman was honoured with the Leadership Excellence Award (I LEAD) by Islamic Banking and Finance Institute Malaysia (IBFIM).

CALENDAR OF EVENTS



3 OCT



6 OCT



23 OCT



11 NOV



13 NOV



1 DEC



4 DEC



6 DEC

3 October

Le Meridien Hotel
Media Appreciation Night

President and Chief Executive Officer, Datuk Seri Ahmad Zaini Othman presented the grand prize to best dressed winner at the Media Appreciation Night.

6 October

Bagan Lalang Beach
Beach Cleaning

MBSB Bank staff volunteered to clean the beach area in Sepang and collected 189kgs worth of rubbish.

23 October

Taman Negara
Explore Taman Negara

A two day trip to Taman Negara where 80 staff tried out various outdoor activities and learned about wildlife.

NOVEMBER

11 November

Kampung Kuantan Fireflies Park
River Clean Up

MBSB Bank staff volunteered to clean Sungai Selangor, which is the main source of water in the Klang Valley

13 November

Majestic Hotel
Analyst briefing

President and Chief Executive Officer, Datuk Seri Ahmad Zaini Othman and Chief Financial Officer, Mr Tang Yow Sai announced financial results for the third quarter of 2018.

DECEMBER

1 December

Taman Puchong Permai
Cooking For A Cause Central Region

MBSB Bank staff volunteered to cook for the residents of Flat Taman Puchong Permai. Some of them were also given basic groceries.

4 December

Taman Botani Shah Alam
Skytrex Challenge

A school holiday programme for children of MBSB Bank staff to inculcate interest for outdoor activities.

6 December

Office of the Chief Minister of Sarawak
Courtesy visit to Chief Minister of Sarawak

A courtesy visit by MBSB Bank Chairman, Tan Sri Abdul Halim Ali, President and Chief Executive Officer, Datuk Seri Ahmad Zaini Othman, Chief Operations Officer, Tuan Haji Asrul Hazli Salleh, Executive Vice President, Puan Nur Zarina Ghazali together with Sarawak Regional Manager, En. Morshidi Hj Abong to meet Chief Minister of Sarawak, YAB Datuk Patinggi (Dr.) Abang Haji Abdul Rahman Zohari bin Tun Datuk Abang Haji Openg.

PROFILE OF THE BOARD OF DIRECTORS: MALAYSIA BUILDING SOCIETY BERHAD

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

Encik Lim Tian Huat
Senior Independent Non-Executive Director

Ir. Moslim Bin Othman
Independent Non-Executive Director

Puan Lynette Yeow Su-Yin
Independent Non-Executive Director



PROFILE OF BOARD OF DIRECTORS: MALAYSIA BUILDING SOCIETY BERHAD



Tan Sri Abdul Halim Bin Ali

Chairman, Non-Independent Non-Executive Director

Nationality/ Age/ Gender : Malaysian/ 75/ Male
 Date of Appointment : 22 June 2001
 Academic/Professional : Bachelor of Arts (Hons) in History,
 Qualification(s) : University of Malaya

Working Experience and Occupation

Present Directorship(s)

Other listed entities:

- Chairman, IJM Corporation Berhad
- Chairman, Sedania Innovator Berhad

Other Public Companies:

- Chairman, MBSB Bank Berhad

Present Appointment(s)

- Chairman, Universiti Teknologi Malaysia

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

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

Current Membership of Board Committee(s) in MBSB

Nil

Attendance in 2018

- All 12 Board Meetings held in the financial year.

Declaration :

- No family relationship with any director and major shareholders of MBSB.
- Nominee of Employees Provident Fund Board (EPF).
- No conflict of interest with MBSB.
- He has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018.

PROFILE OF BOARD OF DIRECTORS: MALAYSIA BUILDING SOCIETY BERHAD

Encik Lim Tian Huat

Senior Independent Non-Executive Director

Nationality/ Age/ Gender : Malaysian/ 64/ Male
Date of Appointment : 4 April 2011
Academic/Professional : Council Member, Insolvency Practitioners
Qualification(s) Association of Malaysia

Fellow, Association of Chartered Certified Accountants

Member, Malaysian Institute of Accountants (MIA)

Member, Malaysia Institute of Certified Public Accountants (MICPA)

Degree in BA (Honours) in Economics

Working Experience and Occupation

Present Directorship(s)

Other listed entities:

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

Other Public Companies:

- PLUS Malaysia Berhad

Present Appointment(s)

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

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

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

Current Membership of Board Committee(s) in MBSB

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

Attendance in 2018

- All 12 Board Meetings held in the financial year.

Declaration :

- No family relationship with any director and major shareholders of MBSB.
- No conflict of interest with MBSB.
- He has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018.



PROFILE OF BOARD OF DIRECTORS: MALAYSIA BUILDING SOCIETY BERHAD

**Ir. Moslim Bin Othman**

Independent Non-Executive Director

Nationality/ Age/ Gender : Malaysian/ 64/ Male

Date of Appointment : 21 September 2015

Academic/Professional : Bachelor of Engineering (Civil), University of
Qualification(s) MelbourneMaster of Science (Building Services), Brunel
University, LondonRegistered Professional Engineer with the Board
of Engineers Malaysia

Member, Institution of Engineers Malaysia

Working Experience and Occupation**Present Directorship(s)**

Other listed entities:

Nil

Other Public Companies:

Nil

Present Appointment(s)

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

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

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

Current Membership of Board Committee(s) in MBSB

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

Attendance in 2018

- All 12 Board Meetings held in the financial year.

Declaration :

- No family relationship with any director and major shareholders of MBSB.
- No conflict of interest with MBSB.
- He has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018.

PROFILE OF BOARD OF DIRECTORS: MALAYSIA BUILDING SOCIETY BERHAD

Puan Lynette Yeow Su-Yin

Independent Non-Executive Director

Nationality/ Age/ Gender : Malaysian/ 49/ Female

Date of Appointment : 22 March 2017

Academic/Professional : Member, Malaysian Bar

Qualification(s)

Member, Bar Council Malaysian Mediation Centre

Master of Arts, University of Cambridge

Bachelor of Arts (Hons), University of Cambridge

Working Experience and Occupation

Present Directorship(s)

Other listed entities:

Nil

Other Public Companies:

- MBSB Bank Berhad

Present Appointment(s)

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

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

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

Current Membership of Board Committee(s) in MBSB

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

Attendance in 2018

- All 12 Board Meetings held in the financial year.

Declaration :

- No family relationship with any director and major shareholders of MBSB.
- No conflict of interest with MBSB.
- She has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018.



PROFILE OF THE BOARD OF DIRECTORS: MBSB BANK BERHAD

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

Encik Sazaliza Bin Zainuddin
Non-Independent Executive Director

Encik Aw Hong Boo
Senior Independent Non-Executive Director

Datuk Johar Bin Che Mat
Independent Non-Executive Director

Datuk Azrulnizam Bin Abdul Aziz
Independent Non-Executive Director

Puan Lynette Yeow Su-Yin
Independent Non-Executive Director

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

Dr Loh Leong Hua
Independent Non Executive Director

PROFILE OF BOARD OF DIRECTORS: MBSB BANK BERHAD

Tan Sri Abdul Halim Bin Ali

Chairman, Non-Independent Non-Executive Director

Nationality/ Age/ Gender : Malaysian/ 75/ Male
Date of Appointment : 7 February 2018
Academic/Professional : Bachelor of Arts (Hons) in History,
Qualification(s) University of Malaya

Working Experience and Occupation

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

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

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

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

Current Membership of Board Committee(s) in MBSB Bank Berhad
Nil



PROFILE OF BOARD OF DIRECTORS: MBSB BANK BERHAD



Encik Sazaliza Bin Zainuddin

Non-Independent Executive Director*

Nationality/ Age/ Gender : Malaysian/ 46/ Male

Date of Appointment : 7 February 2018

Academic / Professional : ACCA (UK)

Qualification(s)

BA Hons in Accounting & Finance,
Southbank University, United Kingdom

Diploma in Accountancy, UITM

Working Experience and Occupation

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

- Chief Financial Officer of the Employees Provident Fund

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

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

Current Membership of Board Committee(s) in MBSB Bank Berhad

- Member, Board Investment & Credit Committee

* Encik Sazaliza Bin Zainuddin does not hold any executive position in MBSB Bank and does not have any management responsibilities in MBSB Bank. His designation as Non-Independent Executive Director (“NIED”) of MBSB Bank is pursuant to the definition of “executive director” in Bank Negara Malaysia’s Guidelines on Corporate Governance which define “executive director” as a director of a financial institution who has management responsibilities in the financial institution or any of its affiliates. EPF is an affiliate of MBSB Bank and Encik Sazaliza Bin Zainuddin has management responsibilities in EPF.

PROFILE OF BOARD OF DIRECTORS: MBSB BANK BERHAD

Encik Aw Hong Boo

Senior Independent Non-Executive Director

Nationality/ Age/ Gender : Malaysian/ 69/ Male

Date of Appointment : 7 February 2018

Academic/Professional : Member, Malaysian Institute of Accountants (MIA)
Qualification(s)

Member, Malaysian Institute of Certified Public
Accountants (MICPA)

Fellow, Institute of Chartered Accountants in
England & Wales (ICAEW)

Working Experience and Occupation

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

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

Current Membership of Board Committee(s) in MBSB Bank Berhad

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



PROFILE OF BOARD OF DIRECTORS: MBSB BANK BERHAD



Datuk Johar Bin Che Mat

Independent Non-Executive Director

Nationality/ Age/ Gender : Malaysian/ 66/ Male

Date of Appointment : 19 December 2017

Academic/Professional : Bachelor of Economics, University of Malaya
Qualification(s)

Working Experience and Occupation

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

- Director, MNRB Holdings Berhad
- Director, Rural Capital Berhad
- Director, Dagang NeXchange Berhad
- Director, Takaful Ikhlas Family Berhad
- Director, Takaful Ikhlas General Berhad

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

- Director, Malaysia Building Society Berhad (2017-2018)
- Director, Bank Pertanian Malaysia Berhad (Agro Bank) (2010–2016)
- Director, Amanah Raya Group (2010–2016)
- Director, Aseambankers (2000–2002)
- Director, Etiqa Insurance (2004–2010)
- Director, Maybank Trustee Berhad (2007–2010)
- Director, Maybank Islamic Berhad (2006–2010)
- Various Senior positions in Maybank Group (1976–2010)

Current Membership of Board Committee(s) in MBSB Bank Berhad

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

PROFILE OF BOARD OF DIRECTORS: MBSB BANK BERHAD

Datuk Azrulnizam Bin Abdul Aziz

Independent Non-Executive Director

Nationality/ Age/ Gender : Malaysian/ 49/ Male

Date of Appointment : 1 March 2017

Academic/Professional : Executive Education, Harvard Business School
Qualification(s)

Leadership Programme, Oxford University

MBA, International Business, University of
Hartford, Connecticut, USA

BBA Marketing, Wichita State University, USA

Diploma in Business Studies, UiTM Malaysia

Working Experience and Occupation

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

- Director, AmMetlife Takaful Berhad
- Executive Director, CR FinaCapital Sdn Bhd
- Director, Petrowangsa Sdn Bhd

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

- Group Strategic Financial Advisor, Syarikat Perumahan Negara Berhad (SPNB) (2018-2019)
- Director, Bintai KA Development Sdn Bhd (2017-2019)
- Executive Director, OCR Group Berhad (2016-2018)
- Chief Executive Officer, Al Rajhi Banking & Investment Corporation Malaysia Berhad (2012-2014)
- Chief Executive Officer, Standard Chartered Sa'adiq Berhad (2008-2011)
- Director & Head of Islamic Banking Division, Standard Chartered Bank Malaysia Berhad (2005-2008)
- Vice President, Citibank Malaysia Berhad (1996-2005)

Current Membership of Board Committee(s) in MBSB Bank Berhad

- Member, Board Investment and Credit Committee



PROFILE OF BOARD OF DIRECTORS: MBSB BANK BERHAD



Puan Lynette Yeow Su-Yin

Independent Non-Executive Director

Nationality/ Age/ Gender : Malaysian/ 49/ Female

Date of Appointment : 7 February 2018

Academic/Professional : Member, Malaysian Bar

Qualification(s)

Member, Bar Council Malaysian Mediation Centre

Master of Arts, University of Cambridge

Bachelor of Arts (Hons), University of Cambridge

Working Experience and Occupation

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

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

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

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

Current Membership of Board Committee(s) in MBSB Bank Berhad

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

PROFILE OF BOARD OF DIRECTORS: MBSB BANK BERHAD

Tunku Alina Binti Raja Muhd Alias

Non-Independent Non-Executive Director

Nationality/ Age/ Gender : Malaysian/ 55/ Female
Date of Appointment : 7 February 2018
Academic/Professional : Doctorate in Islamic Finance, International Centre
Qualification(s) : for Education in Islamic Finance, Malaysia

Green Templeton College - Advanced
Management Programme, Oxford University

Masters in Law (Corporate and Commercial Law),
King's College, London

Bachelor of Laws, University Malaya

Working Experience and Occupation

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

- Director, Malaysian Pacific Industries Berhad
- Director, IJM Corporation Berhad
- Director, Batu Kawan Berhad
- Director, Joyous Waves Sdn Bhd
- Director, Preci Horizon Sdn Bhd
- Director, JA Russell & Co. Sdn Bhd
- Trustee, Raja Alias Foundation

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

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

Current Membership of Board Committee(s) in MBSB Bank Berhad

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



PROFILE OF BOARD OF DIRECTORS: MBSB BANK BERHAD



Dr Loh Leong Hua

Independent Non-Executive Director

Nationality/ Age/ Gender : Malaysian/ 61/ Male

Date of Appointment : 1 June 2018

Academic/Professional : PhD in Management Studies, Universiti
Qualification(s) : Kebangsaan Malaysia (UKM)

Advanced Management Program (AMP) Graduate,
The Wharton School of University of Pennsylvania,
USA

International Banking Summer School (IBSS)
Programme, Sorrento, Italy

Working Experience and Occupation

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

- Director, Transnational Insurance Brokers (M) Sdn Bhd
- Member, Rating Committee, Malaysian Rating Corporation Berhad

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

- Director, Asian Finance Bank Berhad (Mar 2017-Feb 2018)
- Director, WTK Holdings Berhad (2014-2018)
- Member, Board Risk Committee, Sarawak Economic Development Corporation [SEDC] (2013- 2017)
- Director, YKGI Holdings Berhad (2015-2017)
- Director, YFG Berhad (2012-2015)
- Senior Director, Kenanga Investment Bank Berhad (2006-2011)
- Senior Vice President, Affin Merchant Bank Berhad (2006)
- Head, Commercial Banking, Eon Bank Berhad, HO, KL (2002-2005)
- Head, Sarawak & Sabah Region, Eon Bank Berhad (1996-2002)

Current Membership of Board Committee(s) in MBSB Bank Berhad

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

PROFILE OF SHARIAH ADVISORY COMMITTEE

Assistant Professor Dr. Akhtarzaite Binti Abdul Aziz

Chairperson, Shariah Advisory Committee

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



PROFILE OF SHARIAH ADVISORY COMMITTEE

Professor Dr. Abdul Rahim Bin Abdul Rahman

Member, Shariah Advisory Committee

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



PROFILE OF SHARIAH ADVISORY COMMITTEE

Dato' Professor Dr. Noor Inayah Binti Ya'akub (DSPN)

Member, Shariah Advisory Committee

Dato' Professor Dr. Noor Inayah Binti Ya'akub is a Professor of Islamic finance and comparative business law at Putra Business School, University Putra Malaysia. She was admitted to the Malaysian Bar as a qualified Advocate & Solicitor of the High Court of Malaya in 1996 and also a qualified Shariah lawyer of Negeri Sembilan in the same year. She has more than 20 years of experience in teaching Islamic law, Syariah & conventional banking law, Takaful and insurance law, equity & trust law, business law and ethics and leadership and principles of Islamic management. She serves as Member of the Board Shariah Committee at financial institutions, including Sun-life Takaful, Trustee Council of Majlis Amanah Raya and recently appointed as a Member of the Shariah Committee for the Malaysia's second largest Islamic bank, MBSB Bank Berhad. She received double degrees of a Bachelor of Law (Hons) and Bachelor of Shariah Law (Hons) from the International Islamic University Malaysia. She received her LL.M. (Master of Comparative Civil & Banking Law) from the school of Law, University of Bristol, United Kingdom and a PhD in Comparative Civil & Islamic Banking Law of Guarantee from the law Faculty, University of Manchester, United Kingdom. She has demonstrated an excellent record of teaching and supervision for more than 20 years in the academic field, both undergraduate and postgraduate levels. She has shown excellent records of impactful research and publications and secured several competitive national grants and research awards. She holds a Professional Certificate of Project Management from Innovation Centre, University of Oxford and a University Performance Management Advanced Certificate from the United Nation. Her notable contributions are recognized locally and internationally as proven by invitation as invited speaker, reviewer, and editor in journals, external assessor, internal and external examiner in the fields of business law, governance, leadership, Islamic finance and management across disciplines. She has had vast experiences as Dean of Faculty of Business and Accountancy, Director for University Corporate Planning, Director for Research and Board of Director's Member for Professional Institute of Baitul Mal, Wilayah Persekutuan Religious Authority.



PROFILE OF SHARIAH ADVISORY COMMITTEE



En. Mohd Nasiruddin Bin Mohd Kamaruddin

Member, Shariah Advisory Committee

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

PROFILE OF SHARIAH ADVISORY COMMITTEE

En. Mohd Bahroddin Bin Badri

Member, Shariah Advisory Committee

En. Mohd Bahroddin Bin Badri is Researcher at the International Shariah Research Academy for Islamic Finance (ISRA) and Shariah Consultant at ISRA Consultancy Sdn Bhd (ICSB), a consultancy arm of ISRA. Prior to joining ISRA in 2012, he has served as a lecturer at the International Islamic University Malaysia (IIUM) since 2003. He holds a Bachelor's Degree of Islamic Revealed Knowledge and Heritage (Fiqh and Usul al-Fiqh) from the IIUM and a Master's Degree of Shariah-Economics from the University of Malaya.

His significant contributions to Islamic finance industry includes, an involvement in developing few Policy Guidelines (Shariah Standards) issued by Bank Negara Malaysia and Shariah-based Scheme issued by the Companies Commission of Malaysia (SSM). He is one of the Authors of the world's first most comprehensive Islamic finance textbook, "Islamic Financial System: Principles & Operations" (2nd ED) and a co-Author of "Sukuk: Principles and Practices".

He has produced several research papers and articles on Shariah and Islamic finance and actively presented and participated in local and international workshops, seminars and conferences, including in Brunei, Singapore, Jakarta, Oman, Istanbul and Toronto, Canada. His co-authored research on "Shariah Issues of Preference Shares: An Analysis Based on Musharakah Contract" has won Best Paper Award at the 1st International Halal Management Conference 2017 held in Sejong University, Seoul Korea.

He is also engaged closely with various stakeholders by conducting international and local trainings, advisory and consultancy services. Currently, he is pursuing his Doctoral study in business at the International University Malaysia-Wales (IUMW).



PROFILE OF GROUP PRESIDENT AND CEO

Datuk Seri Ahmad Zaini bin Othman_{smw}

Group President and Chief Executive Officer, Malaysia Building Society Berhad

Nationality / Age / Gender : Malaysian / 62 / Male
Date of Appointment : 26 February 2009
Academic/Professional : Member, CEO Faculty Program, emplaced by Ministry of Higher Education (2016)
Qualification(s)

Faculty member (Industry expert), International Centre for Education in Islamic Finance (INCEIF)

Accreditation Panel Member, Asian Institute of Finance for the year (2011)

Member, Chartered Institute of Islamic Finance Professionals (CIIF)

MBA (Finance), University of St. Louis, USA (1984)

BSc in Finance, University of Southern Illinois, USA (1983)

Higher National Diploma (HND) in Accounting, Manchester, England (1980)

Working Experience and Occupation

Present Directorship(s)

Listed entity:

Nil

Other Public Companies:

Nil

Present Appointment(s)

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

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

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

Achievement

- Asia Pacific Outstanding Entrepreneurship Award 2014 from the Enterprise Asia

Declaration

- No family relationship with any director and major shareholders of MBSB.
- No conflict of interest with MBSB.
- He has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018.

PROFILE OF GROUP PRESIDENT AND CEO



MANAGEMENT TEAM

From left to right

1. Aniza Binti Zakaria
2. Lim Seong Soon
3. Datuk Nor Azam Bin M. Taib
4. Hj Asrul Hazli Bin Salleh



MANAGEMENT TEAM

5. Risham Akashah Bin Kamaruzaman 6. Tengku Khalizul Bin Tengku Khalid
7. Tang Yow Sai 8. Azlina Binti Mohd Rashad



PROFILE OF MANAGEMENT TEAM

Aniza Binti Zakaria

Aged 45, Malaysian
Chief Internal Auditor, Internal Audit Division

Appointment to current position
1 January 2017

Committee memberships

- Secretary for Audit Committee
- Project Steering Committee RRS (Regulatory Reporting System)

Permanent Invitees

- IT Steering Committee

Qualifications

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

Skills and experience

Aniza began her employment at Malaysia Building Society Berhad on 13 August 2014 as Assistant Vice President, Internal Audit Division, after acquiring over 20 years of industry experience from several banking institutions in Malaysia. On 1 January 2017, she was then appointed as Chief Internal Auditor for Malaysia Building Society Berhad. Her major responsibilities are to formulate strategies and execution of an independent, cost effective and efficient audit and examination function for MBSB Bank's operations, and provide independent and objective assessments of control and risk levels in the bank entities. Prior to joining Malaysia Building Society Berhad, Aniza was a Senior Manager of Internal Audit Division at Kuwait Finance House Malaysia Berhad. Aniza is also an Associate Member of The Institute of Internal Auditors Malaysia (IIAM) and Senior Associate Member of Chartered Institute of Islamic Finance Professionals and Associate of Asian Institute of Chartered Bankers.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, she has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018

Lim Seong Soon

Aged 57, Malaysian
Chief Risk Officer, Risk Management Division

Appointment to current position
20 May 2013

Committee memberships

- Asset and Liability Committee (ALCO)
- Initial Alert Report Committee (IAR)
- IT Steering Committee (ITSC)
- Project Steering Committee RRS (Regulatory Reporting System)

Permanent Invitees

- Credit and Rehabilitation Assessment Committee/ Management Investment & Credit Committee (CARAC/MICC)
- Management Committee (MANCO)

Qualifications

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

Skills and experience

Lim Seong Soon joined Malaysia Building Society Berhad on 20 May 2013 as Chief Risk Officer (CRO). As CRO, he leads the development and drive the execution of a comprehensive risk policy framework and strategy to mitigate risks for MBSB Bank at an organization-wide level. He has 31 years of extensive experience in the banking industry and was previously attached with major financial institutions in Malaysia. Lim Seong Soon was the General Manager/Head of Risk Management at Bank of China (Malaysia) Berhad before joining Malaysia Building Society Berhad where he held various positions within the bank including Chairman for the Credit & Loans Committee (C&LC), Vice Chairman of the Risk Management and Internal Control Committee (RMICC) and Secretary of the Board Risk Committee.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018

PROFILE OF MANAGEMENT TEAM

Datuk Nor Azam Bin M. Taib

Aged 51, Malaysian
Chief Business Officer, Business Division

Appointment to current position
7 February 2018

Committee memberships

- Management Committee (MANCO)
- Asset and Liability Committee (ALCO)
- IT Steering Committee (ITSC)
- Initial Alert Report Committee (IAR)
- Project Steering Committee RRS (Regulatory Reporting System)

Permanent Invitees

- Credit and Rehabilitation Assessment Committee/ Management Investment & Credit Committee (CARAC/MICC)

Qualifications

- Master of Business Administration, Charles Stuart University, Australia
- Bachelor of Science in Accounting, University of Wyoming, USA
- American Associate Degree, Indiana University, Bloomington, USA
- Certified Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (CQIF)
- Intermediate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IQIF)
- Associate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (AQIF)

Skills and experience

Datuk Nor Azam has more than 25 years of experience in banking and finance sector in the areas of auditing, structured lending, business banking and corporate business. Before Malaysia Building Society Berhad, he was Head of Business Banking in Bank Islam (M) Berhad. Datuk Nor Azam joined Malaysia Building Society Berhad on 8 November 2010 as General Manager, heading the Corporate Business Division which main function was to provide a comprehensive financial solution to corporate and institutional clients.

In 2018, Datuk Nor Azam was appointed as Chief Business Officer (CBO) of MBSB Bank. His role as CBO is to enhance business strategies of the Bank, develop, guide, motivate and direct the implementation of specific plans and programs for the different types of banking and overall performance. He leads the team in overall management of sales strategies; maintain effective relationship with regulatory, governmental, industry, financial and community groups so as to enhance financial performance and business effectiveness.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018

Hj Asrul Hazli Bin Salleh

Aged 41, Malaysian
Chief Operations Officer, Operations Division

Appointment to current position
7 February 2018

Committee memberships

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

Qualifications

- Bachelor of Business Administration (Hons) Finance, University of Technology MARA (UiTM)
- American Degree Program (ADP) Centre of Preparatory Education, University Technology MARA (UiTM)
- Persatuan Kewangan Malaysia Certificate (PKMC), ACI-Financial Markets Association of Malaysia (ACI-FMAM) and Asian Institute of Chartered Bankers (AICB)
- Intermediate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IQIF)
- Associate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (AQIF)

Skills and experience

Hj Asrul Hazli joined Malaysia Building Society Berhad on 1 October 2010 as the Assistant General Manager of Treasury Division bringing with him years of experience and knowledge on treasury and capital markets, specializing in liquidity, asset and liability and balance sheet management from several financial institutions. Prior to joining Malaysia Building Society Berhad, Hj Asrul Hazli was the Senior Dealer and Head of ALM & Funding Desk of Treasury and Capital Markets Department at Bank Muamalat Malaysia Berhad.

Hj Asrul Hazli was appointed as Chief Operations Officer of MBSB Bank in 2018. He is responsible in providing strategic direction for the Bank's overall operational matters and execution of the day-to-day activities for all the departments under his purview. He also oversees the Global Markets Department's affairs involving the Bank's liquidity, balance sheet management and FX portfolios.

As Chief Operations Officer, Hj Asrul Hazli is responsible in formulating the development of operational strategies of MBSB Bank and manages the efficiency and effectiveness of the related activities in ensuring for smooth and seamless operational alignment to the business goals and objectives of the Bank.

Hj Asrul Hazli is also a member of ACI-Financial Markets Association of Malaysia (ACI-FMAM) since 2001.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018

PROFILE OF MANAGEMENT TEAM

Risham Akashah Bin Kamaruzaman

Aged 46, Malaysian
Chief Technology Officer, Technology Division

Appointment to current position
1 November 2018

Committee memberships

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

Qualifications

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

Skills and experience

Risham Akashah joined Malaysia Building Society Berhad on 8 January 2018 as Chief Digital Officer, Digital Initiatives Division. A trained Electrical/Electronics engineer, Risham Akashah's over 20 years of working experience ranges from software development to managing IT teams across industries, including oil & gas, broadcasting, telecommunications and banking. On 1 November 2018, Risham Akashah was appointed as Chief Technology Officer (CTO) of MBSB Bank. As CTO, he oversees all information technology functions for the Bank, as well as lead and drive the Digital Banking strategy, including development of end-to-end product launches across the online customer journey that enhances customer experience.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018

Tengku Khalizul Bin Tengku Khalid

Aged 44, Malaysian
Chief Compliance Officer, Compliance Division

Appointment to current position
7 February 2018

Committee memberships

- Project Steering Committee RRS (Regulatory Reporting System)

Permanent Invitees

- Management Committee (MANCO)
- Asset and Liability Committee (ALCO)

Qualifications

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

Skills and experience

Tengku Khalizul joined Malaysia Building Society Berhad as Senior Manager on 5 May 2014. Heading the Compliance Division, he is responsible in coordinating the identification and management of compliance risk in the organisation. In 2018, Tengku Khalizul was appointed as Chief Compliance Officer of MBSB Bank where he leads and manages the Bank's Compliance function and act as the focal point for all compliance related initiatives including compliance risk, Anti Money Laundering and CTF (Counter Terrorism Financing). Tengku Khalizul's statutory responsibilities in the Bank include AML/CFT Compliance Officer, FATCA Officer and PDPA Officer. Previously he was Manager in the Internal Audit Department at Kuwait Finance House (Malaysia) Berhad.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018

PROFILE OF MANAGEMENT TEAM

Tang Yow Sai

Aged 55, Malaysian
Chief Financial Officer, Finance Division

Appointment to current position
1 October 2010

Committee memberships

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

Qualifications

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

Skills and experience

Tang Yow Sai was appointed as Malaysia Building Society Berhad's Chief Financial Officer (CFO) on 1 October 2010. As CFO, he oversees all financial functions for Malaysia Building Society Berhad, MBSB Bank and Malaysia Building Society Berhad's subsidiaries which includes reviewing and managing financial policies and annual budget, ensuring efficient use of the Bank's financial resources. Before appointment as the CFO, he was the Group Financial Controller, heading the Finance Division and Information Technology Department.

Tang Yow Sai joined Malaysia Building Society Berhad on 20 December 2004. He has more than 33 years of working experience, where he has held various positions in auditing, corporate finance, finance, business management, strategic planning and consulting services. He is a member of the Malaysian Institute of Certified Public Accountants (MICPA). Before joining MBSB, Tang Yow Sai was the Financial Controller at Tebrau Teguh Berhad, and prior to that, he was the General Manager, Corporate Finance at Ekran Berhad.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018

Azlina Binti Mohd Rashad

Aged 46, Malaysian
Chief Corporate Officer, Corporate Services Division

Appointment to current position
7 February 2018

Committee memberships

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

Qualifications

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

Skills and experience

Azlina joined Malaysia Building Society Berhad on 6 April 2009 as a Senior Manager, Transformation Management Office, CEO's Office. Amongst her major responsibilities were to assist the CEO in planning and ensuring the successful implementation of all strategic business and operational initiatives being undertaken by the business and support divisions. She has a wealth of experience in the financial sector, spanning over 21 years, with previous employment at Amlslamic Bank, undertaking the Business Management function. Azlina also plays a primary role in establishing Malaysia Building Society Berhad's and MBSB Bank's brand names as key players in the financial industry. In 2018, she was appointed as the Chief Corporate Officer of MBSB Bank. In assuming this position, she oversees the Corporate Services Division and is tasked to direct Strategic Planning, Strategic Communication, Human Resource, Shariah Secretariat and Advisory, Legal and Customer Experience Management.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, she has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2018

MBSB BANK VISION AND VALUES



OUR VISION

To be a Top Progressive
Islamic Bank

OUR CORE VALUES

- Humility
- Professionalism
- Ethics
- Empathy
- Passion

MBSB BANK BRANCHES

CENTRAL REGION

DAMANSARA

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

KUALA LUMPUR

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

PETALING JAYA

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

KLANG

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

BATU CAVES

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

CHERAS

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

BANDAR BARU BANGI

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

PUCHONG

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

SHAH ALAM

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

KELANA JAYA

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

PUTRAJAYA

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

WANGSA MAJU

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

KAJANG

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

JALAN SULTAN ISMAIL

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

NORTHERN REGION

PENANG

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

ALOR SETAR

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

KANGAR

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

MBSB BANK BRANCHES**SUNGAI PETANI**

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

BUTTERWORTH

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

KULIM

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

LANGKAWI

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

IPOH

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

TAIPING

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

SITIAWAN

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

SOUTHERN REGION**MELAKA**

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

JOHOR BAHRU

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

SEREMBAN

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

TEBRAU

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

BATU PAHAT

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

MUAR

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

KLUANG

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

KULAI

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

TAMAN MOLEK

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

MBSB BANK BRANCHES

EAST COAST REGION

KEMAMAN

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

KUALA TERENGGANU

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

KUANTAN

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

SABAH REGION

KOTA KINABALU

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

SANDAKAN

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

TAWAU

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

KENINGAU

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

KOTA KINABALU MAIN

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

SARAWAK REGION

KUCHING

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

MIRI

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

SIBU

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

BINTULU

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

MUKAH

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

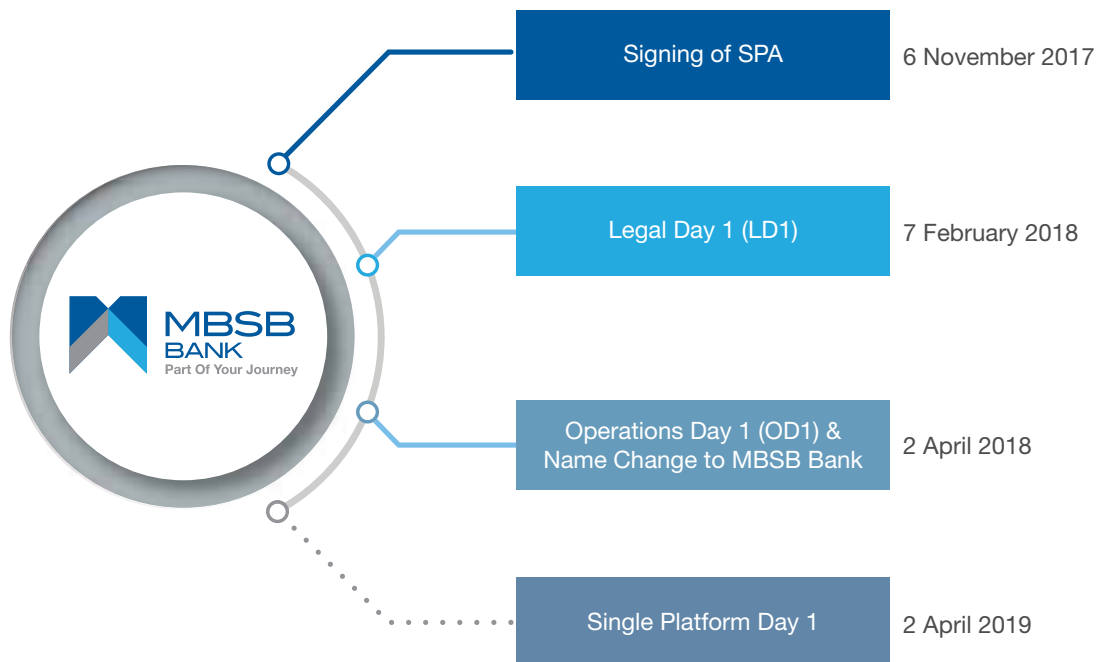
MANAGEMENT DISCUSSION AND ANALYSIS



STRATEGIC REVIEW

BECOMING MBSB BANK

The journey through the merger process was extensive and strenuous but ultimately rewarding for the organisation. The significant milestones can be summarised as below.



STRATEGIC OVERVIEW

Malaysia Building Society Berhad (MBSB) has embarked on a new strategic direction this year upon the birth of MBSB Bank, the core business of MBSB. MBSB Bank represents the business operations of MBSB and will grow in overall contribution over the next few years.

With a vision of becoming “The Top Progressive Islamic Bank”, the objectives of the Bank are to:

- Establish a strong financial position,
- Offer digital banking and innovative product solutions,
- Provide excellent customer service, and
- Become an employer of choice.

We kicked off a 3-year business plan BP, BP 2018 – 2020 (see following slides). The formulation of BP 2018 – 2020 revolves around completing the list of 22 key initiatives. The main purpose was to itemise the capabilities that MBSB Bank will build up in the next 3 years.

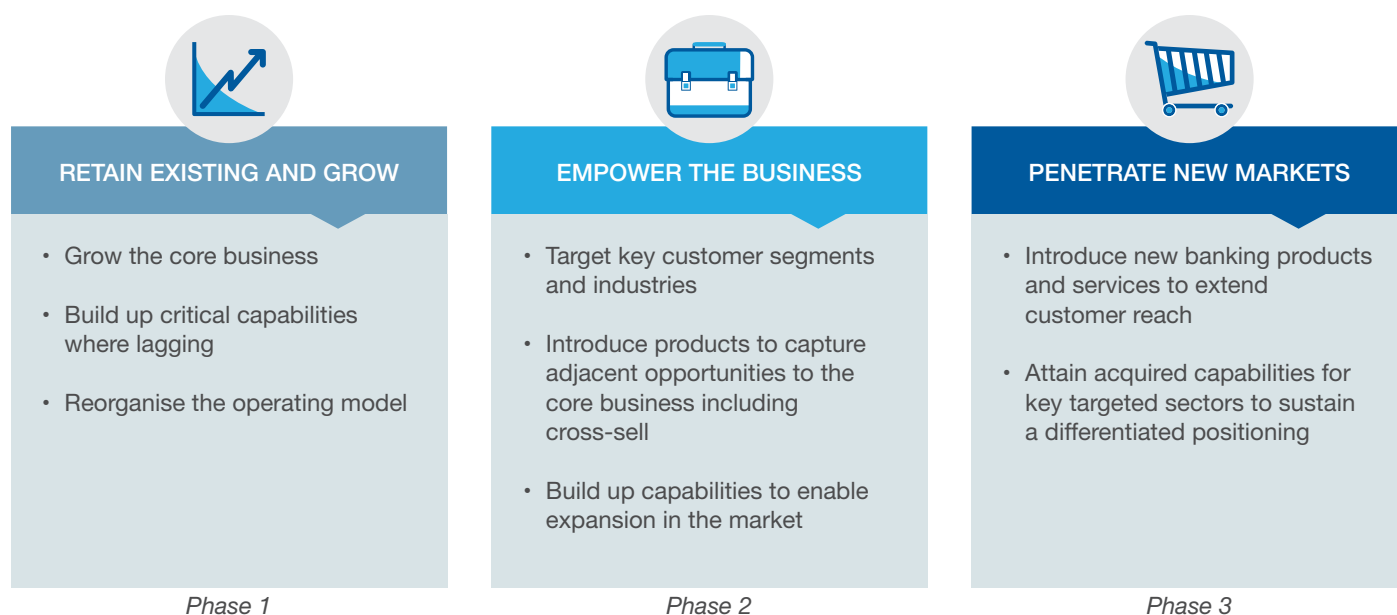
This will be supplemented by BP 2019 as an opportunity to reemphasise our “Journey Towards Technology Transformation”. It will outline the strategy to drive the business, capabilities that are going to be built and the key enablers needed to achieve BP 2018 – 2020.

STRATEGIC REVIEW

BUSINESS PLAN 2018 - 2020

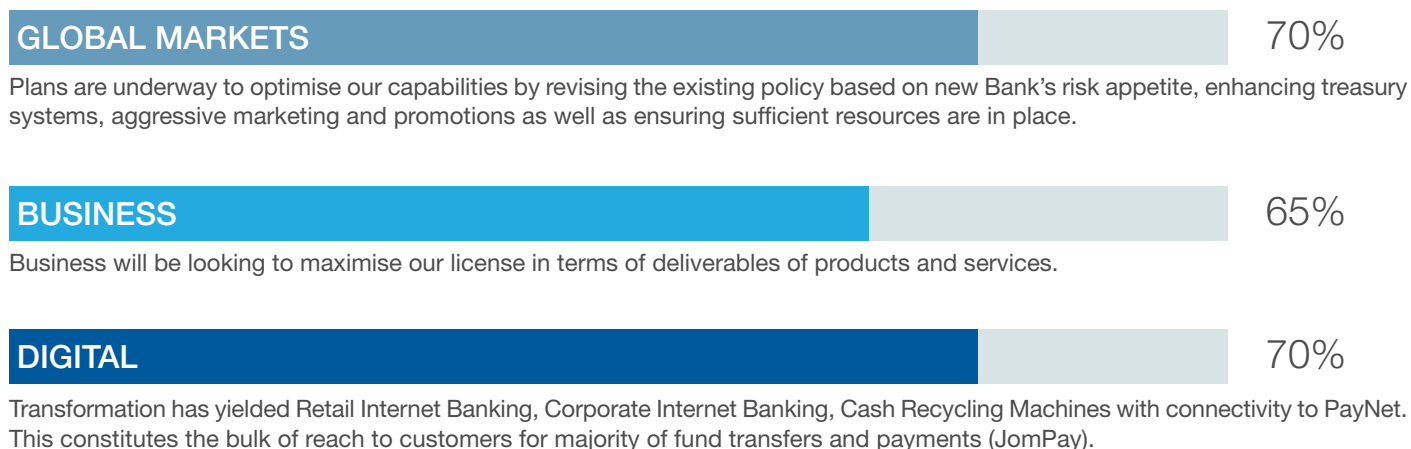
BP 2018-2020 was formulated around ensuring that maximum synergy is garnered from the acquisition.

JOURNEY TOWARDS TECHNOLOGY TRANSFORMATION



LEVERAGING OUR BANKING LICENSE IN 2018

In our transformative year, the business plan was focused on maximising the opportunities allowed by the banking license. Below is an assessment of how far we've explored its potentials this year:



STRATEGIC REVIEW

OUR FOCUS ON SUSTAINABILITY

Our long term sustainability strategy remains consistent in ensuring that as we grow and progress as a business, our communities are progressing together with us.

Building Malaysia remains a key focus for our organisation as we strive to build financially resilient Malaysians and local businesses.

We are pleased that our efforts in improving the sustainability of our business have resulted in improvements across the board. This is acknowledged through our year-on-year increase in our FTSE4Good Bursa Malaysia scoring; from 1.0 in 2016 to 2.6 in 2017 and to 3.4 in 2018 (out of a possible total of 5.0). This has resulted in our entry into the FTSE4Good Index Series as a constituent company.



STRATEGIC REVIEW

OUR SUSTAINABILITY PURSUITS

BETTER COMPANY

We strive to uphold the highest level of scrutiny on the integrity of our organisation – in our everyday conduct, and in taking care of the wellbeing of our family of employees.



Our Integrity



Our People

BETTER VALUE

We aim to grow together with the nation as we add value through technology and our solutions – for the betterment of our customers and the industry.



Our Customers



Our Products



Our Technology

BETTER WORLD

We exist as a bank to make a positive difference in the world – in the lives of the communities we serve and in protecting our planet for our next generation.



Our Communities



Our Planet

STRATEGIC REVIEW

SUPPORTING THE SDGs

MBSB Bank has mapped its material matters to the most supported Sustainable Development Goals (SDGs). In the coming year, we aspire to drill down on the SDG targets to be mapped with our business KPIs in ensuring that we continue to contribute to this important global agenda.

Matters	Supported SDGs
<p>Our Integrity ></p>	 
<p>Our People ></p>	 
<p>Our Customers ></p>	 
<p>Our Products ></p>	   
<p>Our Technology ></p>	  
<p>Our Communities ></p>	 
<p>Our Planet ></p>	 

FINANCIAL REVIEW

2018 was a milestone year for MBSB Group with the acquisition of Asian Finance Bank Berhad completed on 7 February 2018, and two months later, the merged entity operational on 2 April 2018. This allowed for some leverage of the combined entity for the remainder of the year, with the main focus on building up core banking capabilities.

PROFIT AFTER TAX – increased by 54.01%

The Group reported its Profit After Tax (PAT) of RM642.40 million for the full Financial Year Ended 31 December 2018 (“FYE18”), a significant increase of RM225.27 million compared to RM417.13 million posted in the previous Financial Year Ended 31 December 2017 (“FYE17”) due to lower impairment allowances and partly set off by higher operating expenses.

REVENUE – consistent

The Group’s revenue at RM3.15 billion for FYE18 is consistent with RM3.26 billion recorded in FYE 2017.

COST TO INCOME RATIO – regressed by 9.97%

The Group’s Cost to Income ratio (CIR) of 29.53% regressed from 19.56% (FYE17) due to the increase in staff and higher operating costs from investments in IT infrastructure and distribution channels. Nevertheless, MBSB’s CIR still remained well below the industry’s average of 50.1%.

NET PROFIT MARGIN - consistent

Net Profit Margin (“NPM”) stood at 3.06% (FYE18), consistent with 3.08% (3Q18) mainly contributed by Personal Financing, Corporate and Global Market portfolios.

FINANCIAL REVIEW

MBSB's FINANCIAL PERFORMANCE THIS YEAR

NET RETURN ON EQUITY – increased by 2.60%

The Net Return on Equity (“ROE”) stood at 8.62% (FYE18) trending upwards compared to 6.02% (FYE17).

NET RETURN ON ASSETS – increased by 0.47%

Net Return on Assets (“ROA”) moved up to 1.42% (FYE18) from 0.95% (FYE17).

GROSS FINANCING AND LOANS – increased by 2.84%

Gross financing and loans trended upwards from RM34.20 billion (FYE17) to RM35.17 billion (FYE18). The Group's total assets stood at RM45.42 billion, consistent with RM44.81 billion (FYE17).

NET IMPAIRED FINANCING RATIO – increased by 0.28%

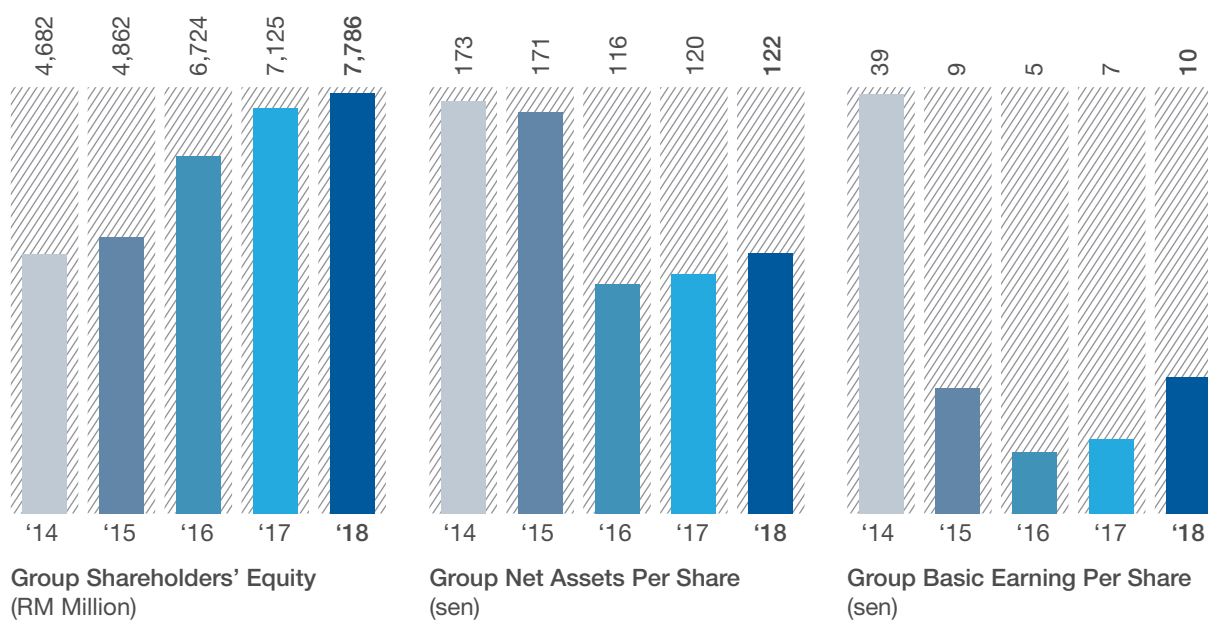
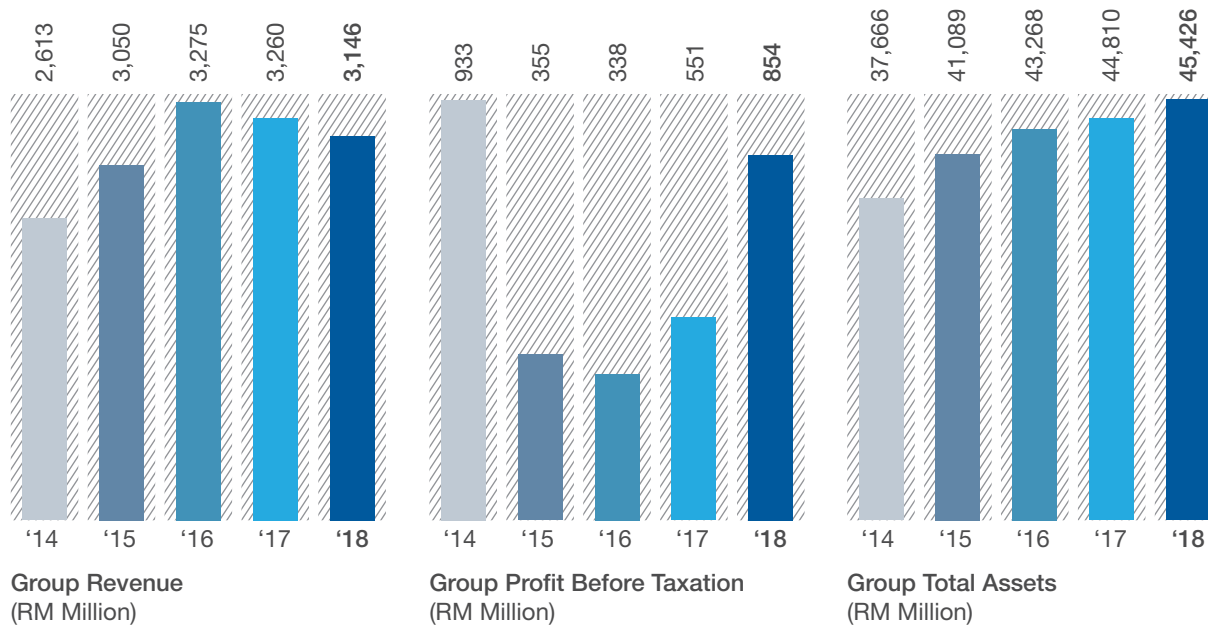
Net Impaired Financing Ratio stood at 2.39% (FYE18) compared to 2.11% (FYE17). The increase is due to higher impaired financing during the year.

DEPOSITS – increased by 1.01%

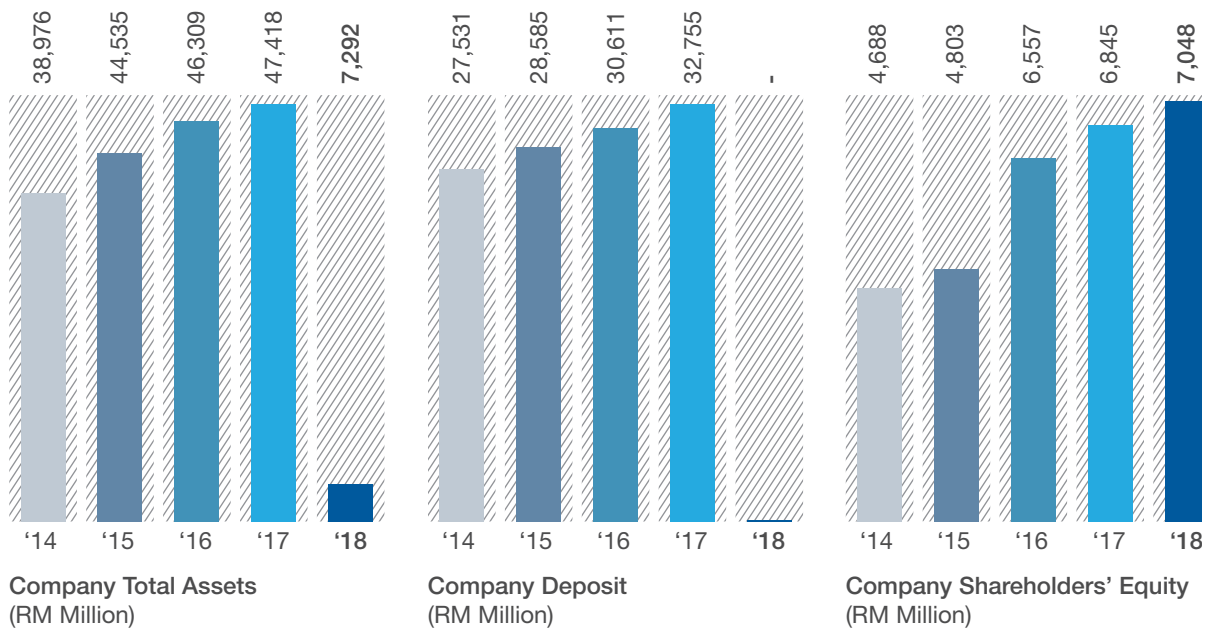
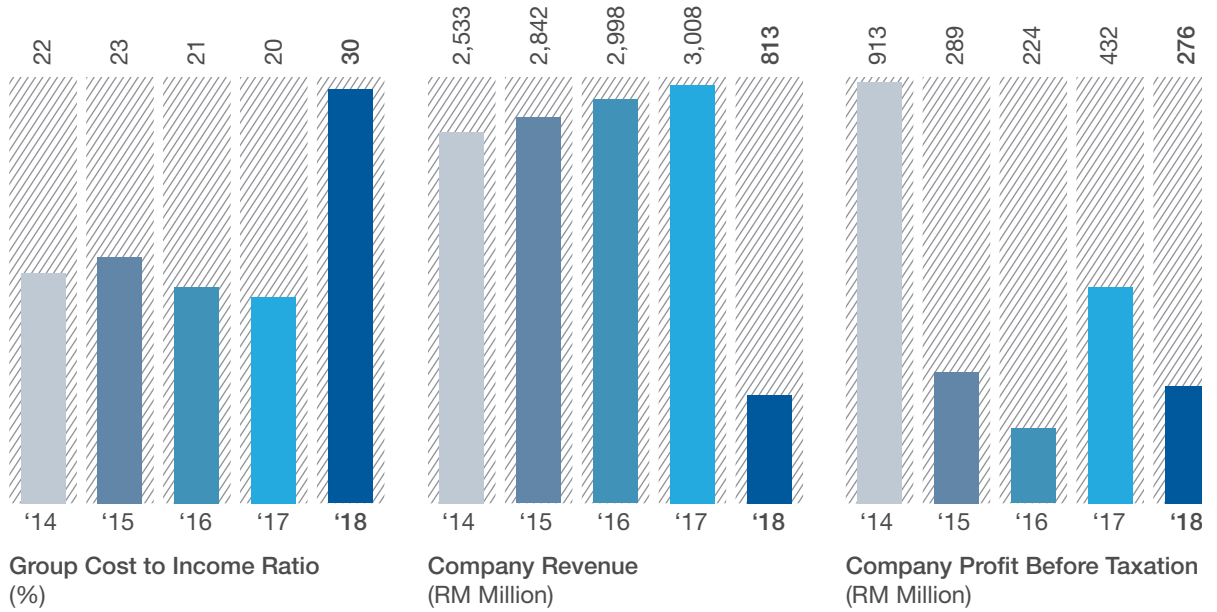
The Group's Deposit saw growth to RM32.79 billion (FYE18) from RM32.76 billion (FYE17).

FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS



FINANCIAL REVIEW



BUSINESS REVIEW

OUR BUSINESS PERFORMANCE THIS YEAR

Overall Achievement

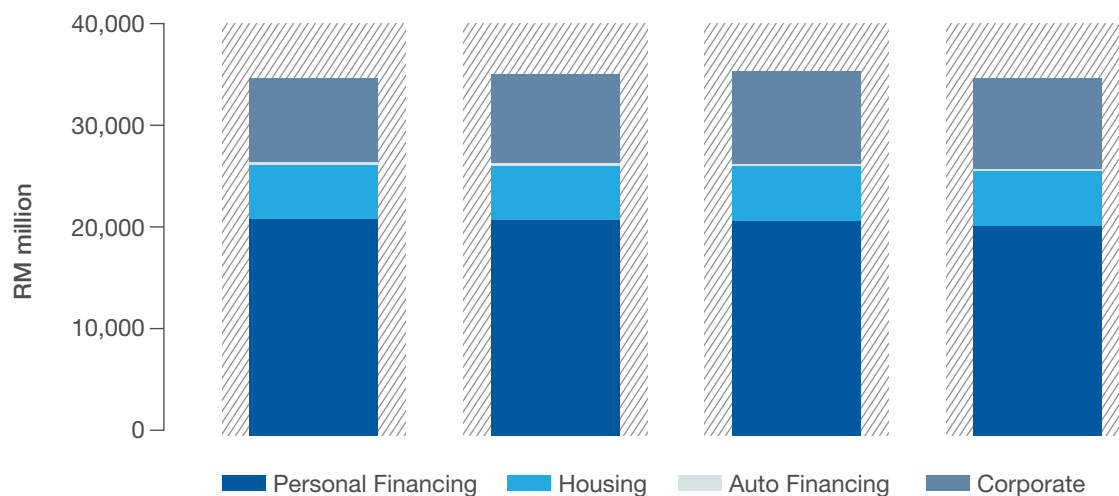
Overall achievement for the year 2018 was commendable for Consumer Banking, closing the year exceeding stated targets. This is due to effective marketing strategies implemented this year, as well as the positive impact of the merger exercise which allowed the Bank to offer more attractive rates and more comprehensive financing solutions.

Business Banking saw softer progress in 2018 due to some factors that were not conducive for growth. One contributing factor was the cut back in projects and infrastructure investments.

However, strategic business expansions increased the asset composition in 2018 between retail and corporate to 75:25 as compared to 79:21 as at 31 December 2017, moving dynamically towards the group's target of 65:35 by year 2020.

Total Group gross financing/loans for 2018 ended at 94% Islamic and 6% Conventional with Personal Financing 100% Islamic, Housing at 80.35% Islamic, and Auto Financing at 92.60% Islamic.

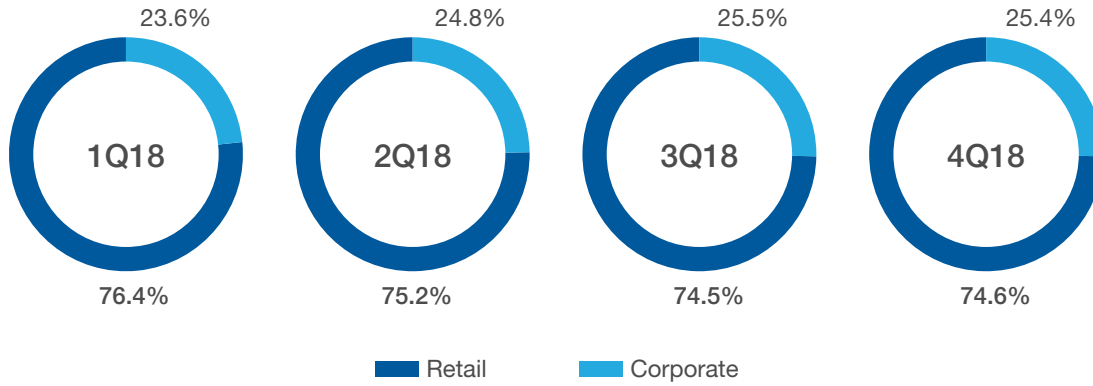
FINANCING, LOANS AND ADVANCES



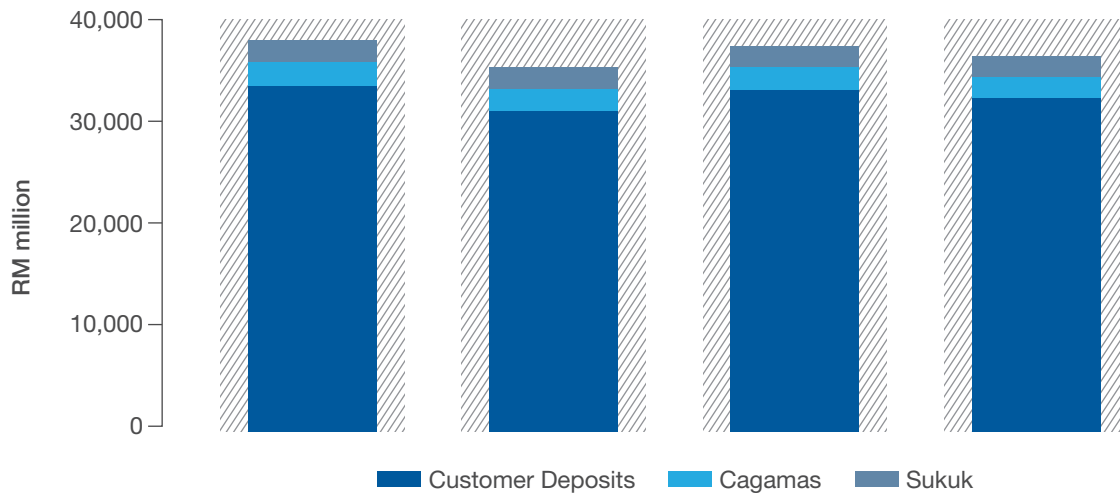
	1Q18	2Q18	3Q18	4Q18
Corporate	8,303	8,825	9,155	8,931
Auto Financing	271	260	247	233
Housing	5,299	5,330	5,320	5,428
Personal Financing	21,329	21,195	21,130	20,579

BUSINESS REVIEW

PORTFOLIO MIX



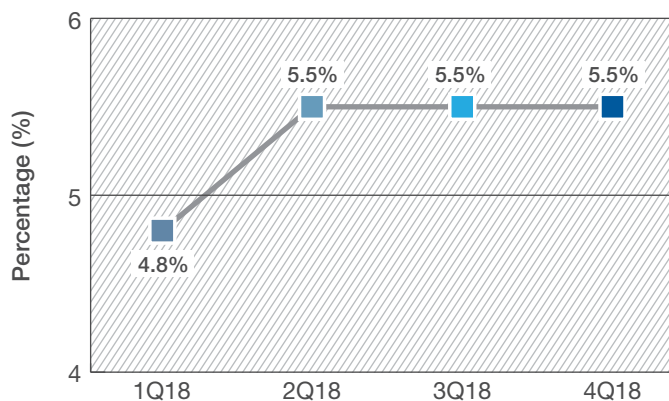
SOURCES OF FUNDS



	1Q18	2Q18	3Q18	4Q18
Sukuk	2,316	2,187	2,215	1,968
Cagamas	2,175	2,165	2,150	2,136
Customer Deposits	33,987	31,479	33,570	32,788

BUSINESS REVIEW

GROSS IMPAIRED RATIO



BUSINESS OPERATIONS

Building Our Banking Infrastructure

Within BP 2018-2020, this year was a critical year for business operations. We focused extensively on establishing and creating solid infrastructure and foundational capabilities for the Bank.

By Operations Day 1 (OD1) on 2 April 2018, we had ramped up the necessary basics to operate as a full-fledged bank. The key capabilities encompassed the following four areas:

Delivery Channels

- **Mobile Sales Force**
Mobile sales tool for pre-approval for Industrial Hire Purchase and Mortgage.
- **Hub and Spoke Model for Bank Branches**
Hub and spoke distribution model with hubs identified in KL Jalan Sultan Ismail and Penang, and spokes in Damansara and JB Taman Molek.

Product Offerings

- **Deposits**
Deployment of Basic Current Account.
- **Treasury**
Expanding existing Treasury product offerings by leveraging on current AFB Treasury products.
- **Trade Finance**
Offering trade finance products leveraging on AFB trade finance products.

Transactional Services

- **Payments/Remittance**
Provide cheque processing and RENTAS/SWIFT services.

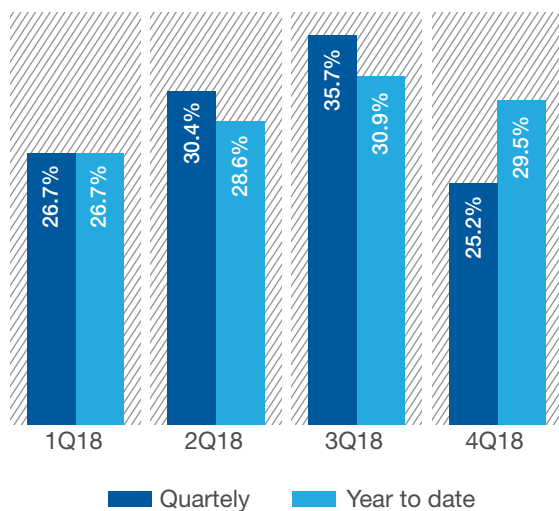
BUSINESS REVIEW

Supporting Functions

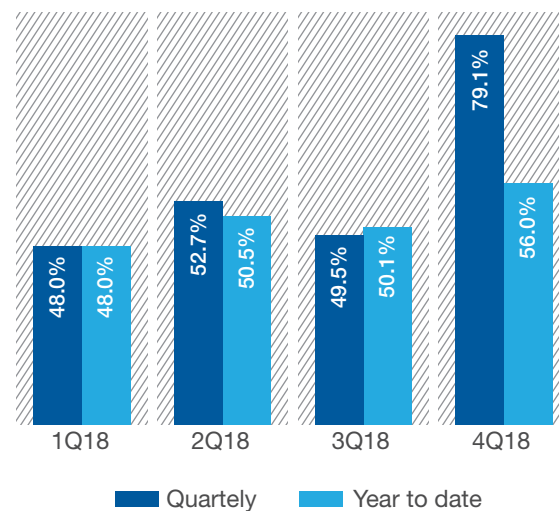
- Compliance**
 Prudential ratios and regulatory reports, policies and procedures for products and services, FEA Compliance Toolkit and compliance monitoring across 6 regions.
- Name and Branding**
 Bank name and branding to be consistent with the aspiration to be a progressive new Islamic Bank.

OPERATING EXPENSES	1Q'18 RM million	2Q'18 RM million	3Q'18 RM million	4Q'18 RM million
Total Income	347.6	358.1	341.5	328.5
Salary and Related Expenses	44.6	57.4	60.3	65.4
Other Expenses	48.3	51.6	61.5	17.3
Total Expenses	92.9	108.9	121.8	82.7

COST TO INCOME RATIO



SALARY & RELATED TO OTHER EXPENSES RATIO



BUSINESS REVIEW

BUSINESS DRIVERS

Our overarching thematic business drivers are divided into two:



Inclusive Financing

MBSB Bank has been privileged to have been the bank of the people since our conception as a building society. Our financing products have also served financing access and activity for the underserved and the civil servants of Malaysia.



Green Financing

We have fully embraced green financing as one of our drivers of business growth. To manage our risk exposure in a new industry, and to design relevant financing products for the alternative energy sector, we have hired industry experts into the bank to advise us in this field.

BUSINESS DRIVERS

In our aspiration to be the Top Progressive Islamic bank, technology will be our key business driver and enabler. The urgent and critical focus will be on:

- The realisation of BP 2018 – 2020,
- Enhancements of the core and infrastructure in meeting the demands of regulatory and business,
- Introduction of new services and capabilities for future business needs, and
- Automation to increase productivity and efficiency.

This will be focused in the following development areas:

KEEPING THE LIGHTS ON

- Core Banking Review
- Network Enhancement
- Security and Cyber Risks
- Services Monitoring

ENHANCING FOR THE FUTURE

- Core Capabilities Insourcing
- Data Centre
- Vendor and Contract Management
- Enhanced Governance and Process Controls
- Analytics

NEW SERVICES AND CAPABILITIES

- Partnerships
- E-Wallet
- Automation
- New Services

RISK REVIEW

OUR FOCUS ON RISK AND COMPLIANCE THIS YEAR

With the business transformations occurring in 2018, risk and compliance were critical areas for MBSB Bank. We focused on ensuring that we understood, adopted, implemented and communicated all new and existing compliance matters across the organisation.

To ensure we had comprehensive oversight, a Board Risk Management and Compliance Committee (BRMCC) was set up as the oversight committee of all risk and compliance matters in the new bank. In addition, six new positions for Regional Compliance and Risk Officers have been introduced to provide guidance and oversight at local levels. Numerous efforts were also undertaken to ensure increased governance and compliance.

SHARIAH RISK

- Developed and implemented Assessment Checklist for Product Development (Shariah Checklist for Product).
- Promoted Shariah Risk Awareness via monthly e-mails to all Staff.
- Updated and enhanced Shariah Risk Management Procedures and SOP for Shariah Risk Unit.
- Provided Shariah Risk Awareness training jointly with Operational Risk.
- Provided input for discussions on Shariah related issues that were escalated to the Shariah Deliberation Team Meeting.

MARKET RISK

- Conducted gap analysis and revised the risk related policies and procedures during the merger integration between MBSB and AFB, including:
 - the Enterprise Risk Management Framework.
 - the Market Risk Unit Standard Operating Procedures.
 - the Enhanced ICAAP Framework.
- Conducted stress testing and reverse stress testing which included the enhancement in the liquidity stress testing, and determined the Internal Capital Target.
- Enhanced monitoring and reporting of major risk exposures in order to identify emerging risks on a timely basis
 - Developed a daily market risk compliance report.
 - Enhanced monthly reporting of Market and Liquidity risks to ALCO.
- Enhancement of the Treasury Management System (Quantum) to facilitate risk monitoring.
- Enhanced risk analysis and reporting through establishing the data warehouse via the System for MBSB Analytics and Reporting (SMART) project which was successfully rolled out in August 2018.
- Assisted in the review of relevant sections of BNM's reporting under Basel III and Capital Adequacy Framework.
- Conducted testing on the effectiveness of the Liquidity Contingency Funding Plan to ensure the feasibility of actions outlined in the plan.

RISK REVIEW

CREDIT RISK

- Developed a Risk Informed Pricing Framework to ensure that decisions on retail financing pricing are consistent with the approved risk appetite.
- Conducted a validation exercise on the Personal Financing Scorecard to ensure that the scorecard is still relevant for informed decision making.
- Conducted a performance review of the Corporate Scorecards to assess the quality of the portfolio following the implementation of the scorecards.
- Conducted a gap analysis and integration of credit risk related policies for MBSB Bank:
 - Credit Policy.
 - Credit Transactions and Exposures with Connected Parties Policy.
 - Enterprise Risk Management Framework.
- Reviewed policies from other departments that were enhanced for the integration process of MBSB Bank, as a member of the Organisation & Methods Working Group.
- Reviewed and updated Terms of Reference for BRMCC, Management Investment and Credit Committee and Board Investment and Credit Committee for MBSB Bank.
- Reviewed and revised the Approving Authority Limits for MBSB Bank.
- Monitored closing of gaps identified by BNM in 2017 CRR Findings (AFB) and prepare quarterly progress updates for Management, Board and BNM.
- SMART Project - assisted with identifying and incorporating risk-related data elements and reports into the system.
- Provided governance support for the implementation of Payments & Cards.
- Provided governance support for the implementation of Corporate Internet Banking.
- Provided governance support for the implementation of Trade Finance product.

OPERATIONAL RISK

- Effectively managed Operational Risk and BCM Tools (i.e. Risk and Control Self- Assessment, Key Risk Indicator, Loss Event Reporting, and Business Impact Analysis) across the Bank to assist Business Units in identifying, assessing, monitoring and reporting of risk situations faced by them.
- Reported Loss Event Data, Key Risk Indicators and Scenario Analysis via BNM Operational Risk Integrated Online Network (ORION) in order to monitor operational risk exposures.
- Implemented the Daily Risk and Compliance Certification for all branches in order to ensure continuous management of compliance and operational risk activities.
- Provided independent assessment on procurement, outsourcing arrangement and review of policies & procedures of respective Business Units.
- Formalised the Business Continuity Plan (BCP) to recover the critical business functions within the reasonable timeframe in the event of operational disruption or disaster.
- Timely and effectively conducted the BCP testing to ensure its effectiveness and operational feasibility to align with BNM's requirements, inclusive of PayNet.
- Conducted continuous Operational Risk and BCM awareness training for all the Designated Compliance and Risk Officers (DCOROs) and Regional Compliance and Risk Officers (RCROs).

RISK REVIEW

IT RISK

- Developed IT Risk Management framework to manage and identify the risk associated with the operation and use of information systems that support business functions of MBSB Bank.
- Monitored all significant IT Risks in support of management, and ensuring that sufficient controls are in place to address these risks.
- Provided guidance and leads, in determining the Risk and Control Self-Assessment and Key Risk Indicator for IT Risk.
- Reviewed quality and effectiveness of additional system controls implemented and initiated by Business Units.
- Reviewed roles and positions for user access rights based on User Access Matrix.
- Conducted continuous IT risk awareness training for all the DCOROs and RCROs.

DUE DILIGENCE

- Conducted training for Relationship Managers to give more practical perspectives, and to ensure a structured and systematic approach in identifying credit risks and provide mitigation in the credit proposals.
- Establishment of Risk and Business Engagement Meeting by Management to assist in understanding and addressing the risk issues identified.
- Formalised and enhanced the standard operating procedures for Due Diligence to ensure clear processes in performing the functions.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

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

In May 2018, the Company Secretary presented the “Asean Corporate Governance (“CG”) Scorecard 2017”, to update the Board on the findings and results concerning the governance level of MBSB based on the assessment by Minority Shareholder Watchdog Group (“MSWG”). The assessment was based on the ASEAN Corporate Governance Scorecard which uses the Organization of Economic Cooperation and Development (“OECD”) Principles of Corporate Governance as the main benchmark.

The ASEAN CG Scorecard 2017 covered five areas of the OECD Principles and adopted 2 levels of scoring to capture the actual implementation of the substance of good corporate governance. The Top 100 Public Listed Companies (“PLCs”) were further subjected to elimination criteria of Return on Equity (“ROE”) of not less than 3% for the last three year.

MBSB was ranked number 47 out of the Top 100 PLCs with Good Disclosure and number 63 out of the Top 100 PLCs for the overall CG & Performance. MBSB rating with FTSE4Good Bursa Malaysia had also improved from 2.6 in 2017 to 3.4 in 2018, resulting in MBSB’s entry into FTSE4Good Index Series as a constituent company.

MBSB is a member of Federation of Public Listed Companies Berhad (“FPLC”) and a corporate subscriber of MSWG.

This Corporate Governance Overview (“CG Overview”) statement is prepared in compliance with Main Market Listing Requirement (“MMLR”) Bursa Malaysia Securities Berhad (“Bursa Malaysia”) and it is to be read together with the Corporate Governance Report (“CG Report”) which is available on MBSB’s website at https://www.mbsb.com.my/CG_Report_2018.

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

1.0 PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

Board Responsibilities

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

During the financial year 2018, MBSB has successfully acquired Asian Finance Bank Berhad (“AFB”) (now known as MBSB Bank Berhad (“the Bank”). On 2 April 2018, the Islamic Assets and Liabilities of MBSB were vested down to the Bank pursuant to a Scheme of Arrangement.

The Board of MBSB and the Bank (“the Boards”) are guided by their own Board Charter which clearly identifies the respective Board’s role, duties and responsibilities.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board Charter of the Boards also outlines the processes and procedures to ensure the effectiveness and efficiency of the Boards and its Committees. The Boards are supported by various Board Committees and Management Led Committees (“the Committees”) and the roles and responsibilities of the respective Committees are clearly outlined in Terms of Reference (“TOR”) and the Approving Authority Manual (“AA Manual”) which requires regular review and approval by the 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 name of AFB was changed to “MBSB Bank Berhad” on 2 April 2018. MBSB and the Bank had since undertaken a rebranding exercise to revitalize the Bank’s Corporate Identity and its brand outlook as a progressive full-fledged Islamic bank and to enhance the brand’s positioning and corporate image in the market and to be 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 MBSB Group achieves its initiatives as set in the Business Plan. The Boards of MBSB and the Bank had during the year convened regularly to examine the progress of the integration between MBSB and the Bank, including the enhancement to the core banking system to meet the banking and regulatory requirements, the budget required for the integration and the future growth for the Group.

During the year, the Boards had reviewed and set the performance scorecard targets of the Group and for the Group President and Chief Executive Officer (“Group PCEO”).

In February 2018, the Board of MBSB and the Bank also had reviewed their respective Board Charter to ensure that the Board Charter contains practices, policies and procedures that are in line with the market practices and adhere to the requirements as stated in the Bank Negara Malaysia Corporate Governance Guide and Malaysian Code on Corporate Governance.

The TOR for the following Board Committees and Management Led Committees for the Bank were reviewed and had been put in place effective from Legal Day 1 i.e. 7 February 2018, being the date of the acquisition of the entire issued and paid up capital in the Bank:-

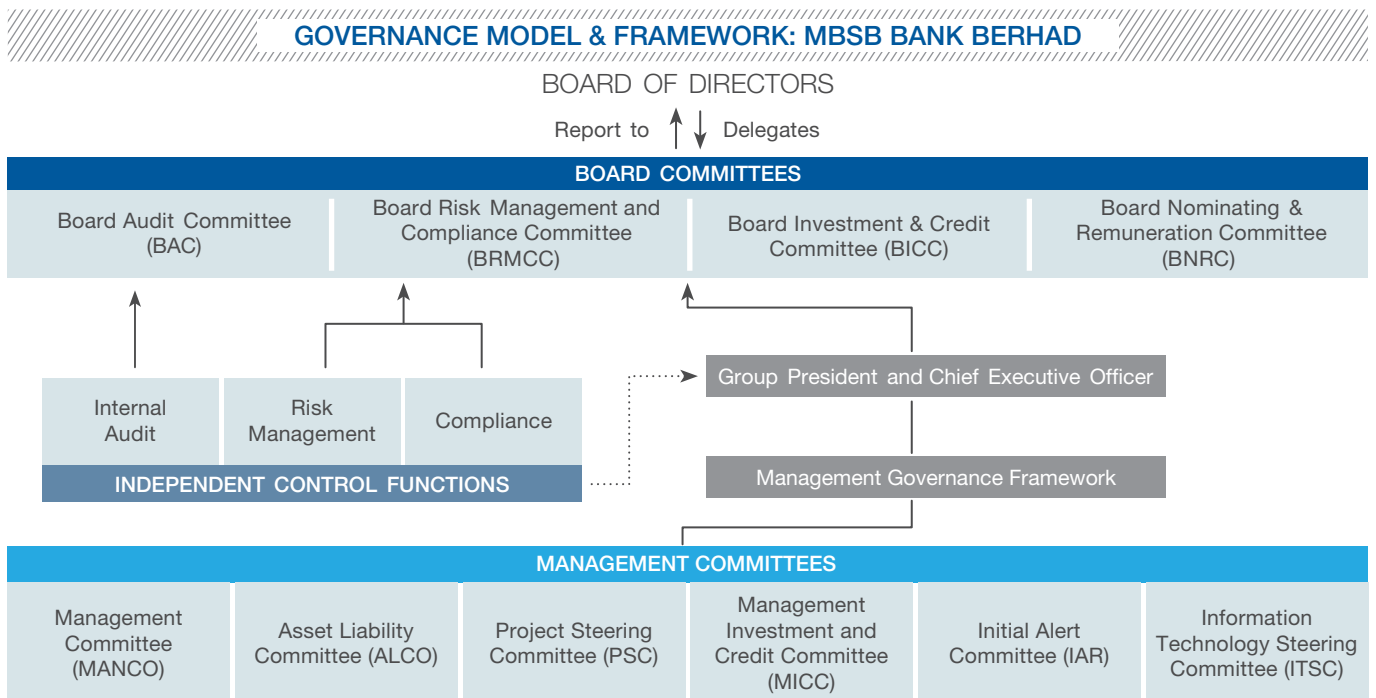
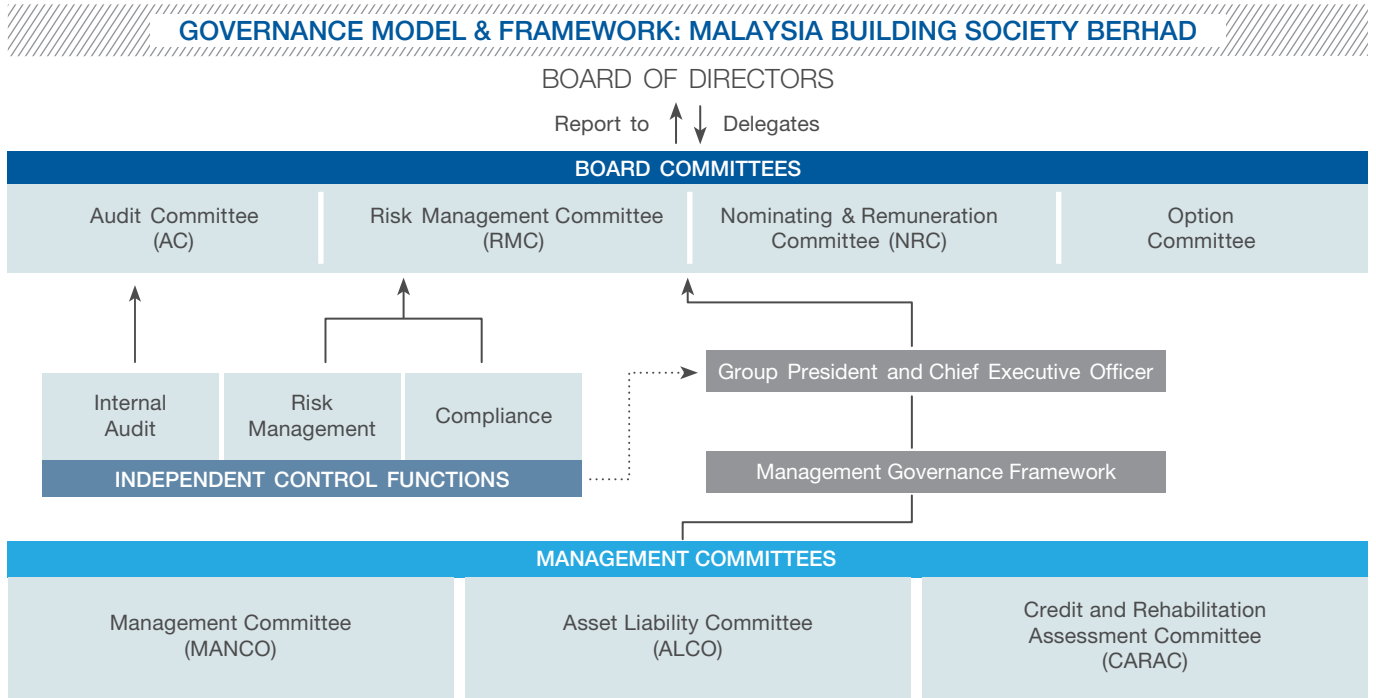
1. Board Investment & Credit Committee (“BICC”);
2. Board Risk Management & Compliance Committee (“BRMCC”);
3. Board Audit Committee (“BAC”);
4. Board Nominating & Remuneration Committee (“BNRC”).
5. Management Committee (“MANCO”);
6. Management Investment & Credit Committee (“MICC”);
7. Asset & Liability Committee (“ALCO”);
8. Information Technology Steering Committee (“ITSC”); and
9. Initial Alert Committee (“IAR”).

The ad-hoc Project Steering Committee (“PSC”) shall be formed and its terms of reference will be established as and when a specific project is undertaken by the Bank’s Management.

The Approving Authority (“AA”) Manual for the Bank was reviewed to reflect the necessary changes in the internal process and regulatory requirement to ensure operational efficiency and readiness. The Board of the Bank had also approved the AA and relevant manuals detailing out the procedure and processes for the Bank effective from Legal Day 1.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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



CORPORATE GOVERNANCE OVERVIEW STATEMENT

The governance structure of MBSB 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, Terms of Reference, Board Charter and the AA Manual will be reviewed as and when required or at least once in every 2 years, to ensure an optimum structure for efficient and effective decision-making in the organisation.

In 2018, three (3) Directors of MBSB, eight (8) directors of the Bank and the Group PCEO have undergone and completed the Financial Institutions Directors Education Programme ("FIDE") Core – Bank training for Module A and Module B. The remaining Director of MBSB completed the FIDE Programme in March 2019.

MBSB Group also has put in place a Code of Conduct and Ethics for employees and Complaint & Whistle Blowing Manual to encourage employees to report on suspected fraud, misconduct behavior and/or violations of the Code of Conduct and Ethics as well as any other directives or policies issued by MBSB Group from time to time. This is to support MBSB 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 the Company's interests.

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

In addition, MBSB Group has established Anti-Money Laundering and Counter Financing of Terrorism Framework which is part of the Compliance policy for the Group. MBSB 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. Compliance Division carries out regular checks and training to ensure that the employees are fully aware and committed in discharging their obligations.

MBSB Group has also established the Related Party Transactions Policy in February 2019 that outlines the roles and responsibilities expected of the Management and the Board of Directors, as well as other relevant divisions/departments within MBSB 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.

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

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

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

Board Composition

The respective Boards recognizes the benefits of having a diverse Board to ensure that the Board is able to perform effectively by providing the necessary range of perspectives, experience and expertise. The 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 taking into account the Company's needs and circumstances, present size of the Board, suitability for the role, skills, experience, knowledge, experience and diversity.

MBSB 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 MBSB 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.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Boards through its respective Nominating and Remuneration Committee (“NRC”) and the Bank’s BNRC reviews the Board composition on yearly basis and the same is tabled to the respective Boards, the optimum size of the Board to enable effective oversight and delegation of responsibilities to encourage the active participation of all directors in Board/Board committees. For the year 2018, the Board of MBSB, had prior to the acquisition of the Bank, reviewed the Board Committees composition for MBSB and the Bank in January 2018. The Board of MBSB had again reviewed the Board composition in August 2018.

The MBSB’s NRC and the Bank’s BNRC have conducted an annual review on the Board’s mix of skills and experience, diversity and other qualities in 2018 and concluded that there was a need to appoint female directors and directors who possess Information Technology or Accounting/Auditing experiences. Both Committees also agreed that additional directors need to be appointed as part of the succession planning of the Board. The Boards have obtained list of board candidates from various source i.e. external sources, shareholders etc. and the evaluation process is still on-going.

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

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

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

The “C” Suites position will cover the 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 and the Chief Corporate Officer.

The NRC prior to the acquisition of AFB had also recommended additional candidates for appointment as Shariah Committee Members of the Bank. Post-acquisition, matters concerning the Shariah members were discussed and decided at the BNRC of the Bank.

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

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 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 MBSB’s NRC and the Bank’s BNRC have also 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 Boards for decision on the proposed re-election of the Director concerned for shareholders’ approval at the forthcoming AGM.

During the year, the MBSB’s Board size had decreased from ten (10) members as at 1 January 2018 to four (4) members as at 31 December 2018. Five (5) Directors who had resigned from MBSB had been appointed as the Directors of the Bank in February 2018 as part of the restructuring exercise. There are two (2) common Directors in MBSB and the Bank.

Currently, the women representation in the Board of MBSB and the Bank was registered at 25% and 12.5% respectively. The respective NRC and BNRC and the Boards of MBSB and the Bank are actively looking for potential candidates to achieve optimum Board size with right diversity.

The detailed activities carried out by NRC and the BNRC in 2018 are disclosed in Corporate Governance Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Board Remuneration

The Boards have established a Directors Remuneration Framework which is tailored to support the strategies and long-term vision of MBSB Group as well as provide adequate motivational incentive for directors to pursue long-term growth and success of MBSB 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. The revision to the Directors Remuneration Framework was approved by the Board in January 2018.

Both the NRC and the BNRC are responsible to ensure that the Directors' remuneration for MBSB and the Bank are competitive and align 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.

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

Both NRC and the BNRC have reviewed the Directors' fee structure and the benefits payable to the Directors and have recommended for the fee structure to remain unchanged.

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 the Bank are also carrying the oversight responsibilities particularly in ensuring that the MBSB Group is in compliance with the BNM guidelines. In order to ensure that the current remuneration structure commensurate with the respective directors' responsibilities, the NRC has requested for an external consultant to be appointed to review the remuneration structure of Directors of MBSB and the Bank.

The details of the Directors' fees structure and benefits payable to the Directors of MBSB and the Bank are disclosed in the CG Report.

2.0 PRINCIPLE B: EFFECTIVE AUDIT & RISK MANAGEMENT

Audit Committees ("AC")

As at 31 December 2018, the MBSB's Audit Committee ("AC") comprises three (3) Independent Non-Executive Directors. The Audit Committee was 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 Association of Chartered Certified Accountants, a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountant.

As at 31 December 2018, the Bank's BAC comprised of two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. The Bank's BAC was chaired by Encik Aw Hong Boo, a Fellow of Institute of Chartered Accountants in England & Wales, a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants.

None of the MBSB's AC members and the Bank's 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 director as well. The Board Charter states that 'any candidate/director directly involved in the engagement and any partner of the external auditor firm must not serve or to be appointed as Director until at least 2 years after he ceases to be an officer and/or partner of that firm and the firm last served as an auditor of the Group.'

The MBSB's AC and the Bank's 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 MBSB's AC and the Bank's BAC are satisfied with the performance of Messrs Ernst & Young ("EY") and Messrs KPMG PLT, based on the quality of service and sufficiency of resources which they provided to the Group and the Bank respectively. The MBSB's AC was also satisfied with its review that the non-audit services provided by EY for financial year ended 31 December 2018 did not in any way impair their objectivity and independence as external auditors of the Group.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The MBSB's AC and the Board had in February 2019 considered the efficiency of having only 1 External Audit firm for both MBSB and the Bank. As Messrs KPMG PLT is the existing External Auditor for the Bank, the MBSB's AC and Board has recommended that Messrs. KPMG PLT be appointed as the auditors for both MBSB and Bank for the financial year ending 31 December 2019, subject always to the approval from the Regulators and Shareholders.

Risk Management and Internal Control Framework

The Board is ultimately responsible for risk oversight within the Group through the RMC and BRMCC at the Bank level (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 the Bank

1. Management Committee ("MANCO")
2. Management Investment & Credit Committee ("MICC")
3. Asset & Liability Committee ("ALCO")
4. Initial Alert Report Committee ("IAR")
5. IT Steering Committee ("ITSC")

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 Board. The reports include the type of breaches, rationale (cause or reason leading to the breaches) and action plans taken to rectify the situation. The

Boards also have the overall responsibility of maintaining a sound system of internal controls to safeguard shareholders' investments and the Company's assets.

At the Bank level, MANCO in May 2018 has approved the establishment of "Designated Compliance and Risk Officer" (DCORO) at all business and support functions including bank branches.

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.

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 ("AMPLATFPUAA") 2016.

The Regional Compliance and Risk Officers (RCRO) are also appointed at all regional branches to oversee the overall compliance and risk areas in branches nationwide. Among the responsibilities of a RCRO are to validate health checks submission by branch, to perform gap analysis relating to branch operations, acts as a business advisor for branches on compliance and risk matters and to provide training to branch employees on compliance, risk and operational control requirements.

The Boards are of the view that the risk management and internal control framework in place during 2018 is sound and sufficient to ensure that all risks are well managed within the Group's risk appetite by providing adequate infrastructure and resources in place to support the risk management activities.

The risk management and internal control framework is disclosed in the Statement on Risk Management and Internal Control Section in the Company's Annual Report 2018.

Shariah Governance

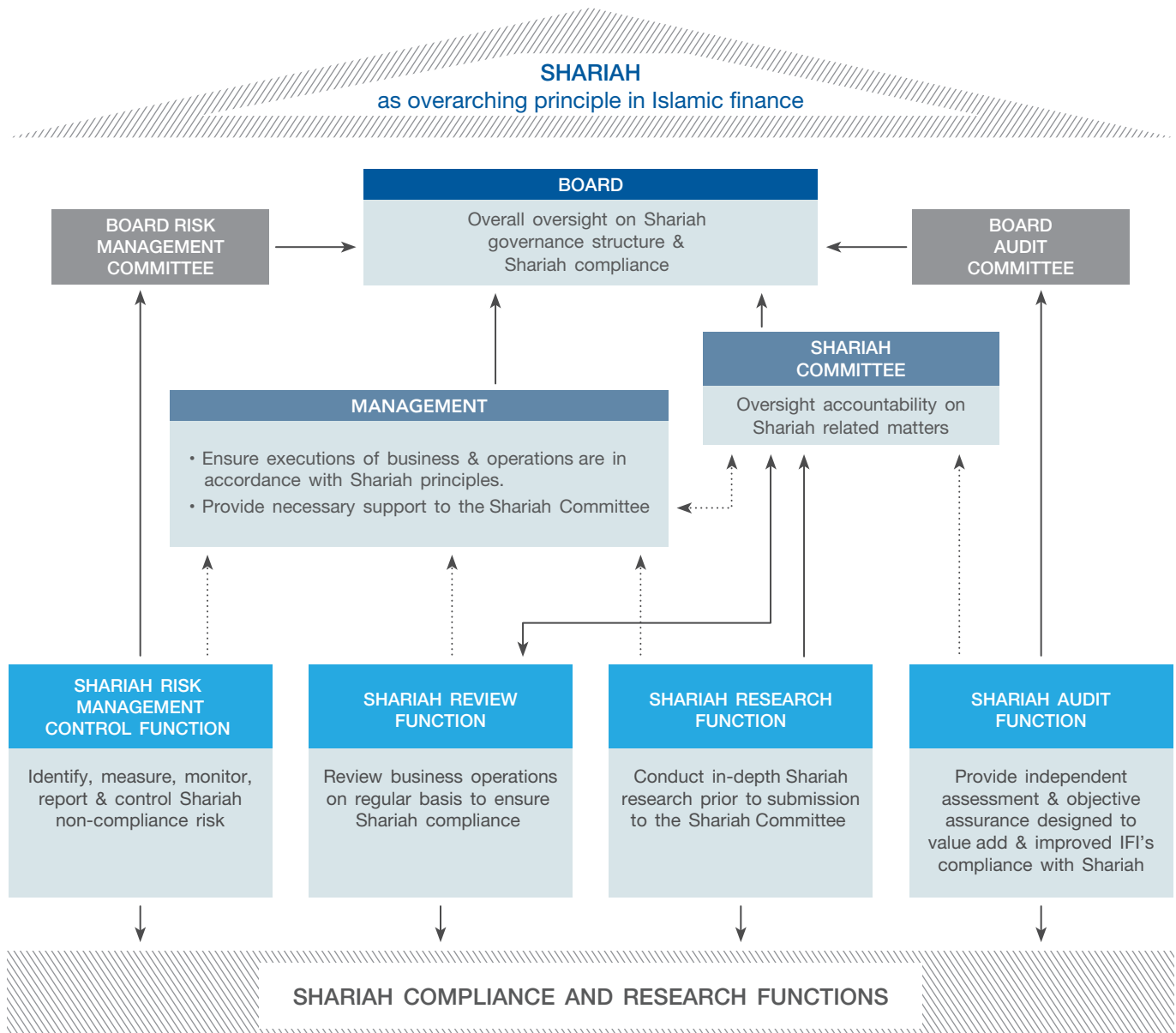
The Board of MBSB has established and implemented a comprehensive Shariah Governance Framework ("SGF") since 2012. With effect from 2 April 2018, the Islamic Assets and Liabilities of MBSB were vested down to the Bank pursuant to a Scheme of Arrangement. All Shariah activities post 2 April 2018 were carried out at the Bank. With the SGF in place, Bank has ensured that the aims, governance structures, operations, policies and procedures of its business are in compliance with Shariah principles at all times.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Bank has also established an independent Shariah Advisory Committee, as well as Shariah compliance and research functions to manage, advise, examine and evaluate Bank's level of compliance to Shariah and promote end-to-end Shariah compliance awareness within the Islamic finance industry.

Efforts to further strengthen Shariah governance standards remain a priority to the Bank as good governance models and practices evolve in tandem with the growing complexity of the Islamic finance industry. As such, the SGF envisions for future of Shariah governance impacting business model and strategy of the Bank as a full-fledged standalone Islamic bank, as well as driving innovation of value-added Islamic financial products through effective implementation of a holistic Shariah regulatory framework.

SGF of Bank is in line with the SGF for Islamic Financial Institutions issued by Bank Negara Malaysia. The framework provides clear roles and responsibilities of an Islamic financial institution for adherence to Shariah across the organization as illustrated below:



CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

Communication with Stakeholders

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

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

MBSB and the Bank's website, which can be found at <https://www.mbsb.com.my>, and <https://www.mbsbbank.com> respectively, provides updated information on the corporate and business aspect of the MBSB 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 the company's shareholders and all other market participants. All details of the corporate events carried out by MBSB Group are also available on MBSB and the Bank's website.

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

Stakeholders are encouraged to drop an email at enquiry@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 its shareholders. Shareholders are given the opportunity to participate effectively in resolutions tabled at the AGM. All shareholders have direct access to the Board members at this AGM. In addition, the senior management, external auditors and other advisors are present at the AGM to provide answers and clarifications to shareholders.

Four (4) directors were present at the 48th AGM. The remaining director was unable to attend the 48th AGM as he was attending another AGM overseas. During the 48th 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 also invited the shareholders to raise questions pertaining to MBSB's financial statements, proposed resolutions and other items during the Questions and Answers session before putting a resolution to vote.

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

The poll voting at the 48th AGM was conducted through electronic voting system.

This CG Overview Statement was approved by the Board of Directors on 27 March 2019.

ADDITIONAL COMPLIANCE STATEMENT

Utilisation of Proceeds Raised from any Corporate Proposal

During the financial year ended 31 December 2018, 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.

Non-Audit Fees

Apart from the annual audit fees, the Group has incurred other assurance related fees of and non-audit fees paid or payable to external auditors of MBSB, Messrs Ernst & Young or its affiliates for the financial year ended 31 December 2018.

	Group (RM'000)	Company (RM'000)
Fees paid/payable to Ernst & Young - Audit Fees	490	410
Regulatory Related - Statement on Risk Management and Internal Control	5	5
Non-Audit Fees		
- Corporate Exercise (Merger and Integration)	8,480	5,123
- MFRS 9	508	508
- Legal related	150	150
- Taxation	11	-
- Training	10	-
Total	9,654	6,196

Material Contracts with Related Parties

Save as disclosed in Note 44 to the financial statements, there are no other material contracts subsisting at the end of the financial year or entered into since the end of the previous financial year by the Company and its subsidiaries which involves interests of the Directors, Group PCEO and major shareholders.

ADDITIONAL COMPLIANCE STATEMENT

Dividend Payment Policy

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

Employees Shares Option Scheme (“ESOS”)

The Shares Option granted to Group PCEO as at 31 December 2018 was as follows:-

Name	Exercise Price (RM)	As at 1.1.2018	Granted	Exercised	As at 31.12.2018
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 2018, the actual percentage of total options granted to senior management of MBSB Group under ESOS was 22.58% of the total ESOS granted.

Details of the ESOS during the financial year 2018 are set out in Note 29 of the Notes to the Financial Statements in this Annual Report.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors (“MBSB Board”) is pleased to provide a statement on the state of the risk management and internal control system of Malaysia Building Society Berhad (“MBSB”) and its group of companies (collectively known as “the Group”) in this Annual Report as per the Bursa Malaysia Securities Berhad Main Market Listing Requirement (“Bursa Malaysia”) and the Malaysian Code on Corporate Governance. The Statement outlines the key features of the risk management and internal control system of the Group during the year under review. The following Statement on Risk Management and Internal Control (SRMIC) is prepared in accordance with the guidelines as set out in the “Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers”.

Effective 2 April 2018, MBSB had transferred its Islamic assets and liabilities into the Bank (formerly known as Asian Finance Bank Berhad).

BOARD RESPONSIBILITY

MBSB Board is cognizant of its overall responsibility and recognizes the importance of maintaining a sound system of risk management and internal control and reviewing its adequacy, integrity and effectiveness so as to safeguard shareholders’ investments and the Group’s assets. MBSB Board endeavors to oversee to ensure that principal risks are identified and ensure the implementation of appropriate internal controls and mitigation measures.

Due to the limitations that are inherent in any system of risk management and internal control, this system 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 control.

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

MBSB 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 in a timely manner to MBSB Board and the Bank Board (collectively known as “the Boards”) for deliberation. This ongoing process has been in place for the entire financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report.

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

MANAGEMENT RESPONSIBILITY

The Management is overall responsible for implementing the Group's policies and processes to identify, measure, monitor, control and report on risks as well as the effectiveness of the internal control systems, taking appropriate and timely remedial actions as required. Its roles include:

- Identifying and evaluating the risks relevant to the Group's business and 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 in a timely manner to the Boards on any changes identified to the risks or emerging risk and the corrective actions taken.

MBSB Board has also obtained assurance from the President and Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Compliance Officer that the Group's risk management and internal control system is operating adequately and effectively.

RISK MANAGEMENT AND INTERNAL CONTROL

MBSB 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.

Responsibility for implementing the Group's strategies and day-to-day businesses are delegated to the Management. The organizational structure sets out clear segregation of roles and responsibilities, lines of accountability and levels of authority to ensure effective and independent stewardship. The Management assists the Boards in implementing the risk management policies and procedures as well as developing and operating internal controls to manage the identified risks, as well as monitors and

reports regularly to the Boards on all risks related to the Group. The Management is also accountable to ensure such policies and procedures are being continuously reviewed in order to meet the changing financial landscape as well as the changes in the nature and size of the Group's activities.

RISK MANAGEMENT FRAMEWORK

The Group has in place a risk management framework for identifying, measuring, monitoring, controlling and reporting the significant risks faced in the achievement of 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 & Organization:**
A strong governance structure is important to ensure an effective and consistent implementation of the risk management framework. MBSB 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 effectively maintained.
- ii. **Internal Capital Adequacy Assessment Process (ICAAP) of the 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, relevant frameworks and control mechanisms are implemented to mitigate and manage the same.
- iii. **Risk Appetite of the Bank:**
Risk Appetite is defined as the amount and types of risk that the 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 changing business and market conditions. As the risk appetite is dynamic, the risk appetite is set based on the business and financial targets, while incorporating macroeconomic and global outlook. The Bank Board 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 or as and when required.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 systematically identified through the robust application of the Enterprise Risk Management Framework, policies and procedures.
- **Measure and Assess:** Risks are measured and aggregated using risk methodologies across each of the risk types, including stress testing.
- **Manage and Control:** Controls and limits are used to manage risk exposures within the risk appetite. 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 Bank'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 policies.
- **People:** Attracting the right talent and skills are the key to ensuring a well-functioning risk management framework. The Group 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.

v. 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 to promote a healthy risk culture. A strong risk culture minimizes the Group's exposure to financial and non-financial risks including reputational impact, over time.

In addition, the Bank has introduced 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 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:



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

RISK GOVERNANCE STRUCTURE

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

Risk Management Committee

The Boards have respectively put in place the MBSB Risk Management Committee (“RMC”) and Bank Board Risk Management and Compliance Committee (“BRMCC”), (collectively known as “the Risk Committees”) as the drivers for identifying 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 Risk Committees.

The respective 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.

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

MBSB

During the financial year ended 31 December 2018, a total of 7 RMC meetings were held. The Committee comprises the following members and details of their attendance of meetings held during the financial year are as follows:

Name of Members	Number of meetings attended/held
Encik Lim Tian Huat (Chairman)	7/7
Encik Moslim bin Othman <i>* Appointed as RMC member on 6 February 2018</i>	6/6
Puan Lynette Yeow Su-Yin <i>* Appointed as RMC member on 6 February 2018</i>	6/6
Encik Aw Hong Boo <i>* resigned as RMC member on 6 February 2018</i>	1/1
Tunku Alina Alias <i>* resigned as RMC member on 6 February 2018</i>	1/1
Dato’ Jasmy Ismail <i>* resigned as RMC member on 6 February 2018</i>	1/1

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Bank

During the financial year ended 31 December 2018, a total of 15 BRMCC meetings for the Bank were held. The Committee comprises the following members and details of their attendance of meetings held during the financial year are as follows:

Name of Members	Number of meetings attended/held
Dr. Loh Leong Hua (Chairman) <i>* from AFB (resigned as BRMCC member on 7 February 2018)</i> <i>* Appointed as BRMCC member on 24 May 2018</i> <i>* Appointed as Chairman of BRMCC on 20 August 2018</i>	10/10
Encik Aw Hong Boo <i>*appointed as BRMCC member on 7 February 2018</i>	15/15
Tunku Alina Alias <i>* appointed as BRMCC member and Chairman on 7 February 2018</i> <i>* redesignated as member of BMRCC on 20 August 2018</i>	15/15
Datuk Azrulnizam bin Abdul Aziz <i>* appointed as BRMCC member on 7 February 2018</i> <i>** stepped down as BRMCC member on 1 June 2018</i>	6/6
Dato' Dr. Md Khir Bin Abdul Rahman <i>* from AFB (resigned as BRMCC member on 7 February 2018)</i>	1/1
Encik Abdul Rahim Bin Abdul Hamid <i>* from AFB (resigned as BRMCC member on 7 February 2018)</i>	1/1
Datuk Johar Bin Che Mat <i>* from AFB (resigned as BRMCC member on 7 February 2018)</i>	1/1

- Risk Committees are responsible for periodically reviewing risk management policies, risk exposures and limits whilst ensuring infrastructure and resources are in place; and
- Committees are set-up to assist the Risk Committees to manage credit risk, operational 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

- Management Committee ("MANCO")
- Credit and Rehabilitation Assessment Committee ("CARAC")
- Asset Liability Committee ("ALCO")

The Bank

- Management Committee ("MANCO")
- Management Investment and Credit Committee ("MICC"),
- Asset Liability Committee ("ALCO")
- Initial Alert Report Committee ("IAR")
- IT Steering Committee ("ITSC")

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Management Led Committees

MBSB

MANCO, which constitutes 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 dedicated management committees namely ALCO and CARAC assist RMC and MBSB Board in managing credit, operational, market and liquidity risks. Further details of the roles and responsibilities of these committees are as follows:

- 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 assets and liabilities. The committee also monitors capital adequacy through capital management of MBSB Bank.
- 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.

The Bank

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

- MANCO, which constitutes members of Senior Management, acts as a platform for addressing all inherent risks to the Bank as well as the development of risk mitigation measures and strategies. In implementing the Risk Appetite Framework across the Bank, the Bank's MANCO ensures timely escalation of all events which may materially impact the 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 Bank's Board. 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 Bank Board Committees for approval.

- Asset Liability Committee (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.
- Initial Alert Report Committee (IAR), in attending to corporate and retail financing, the committee 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), as the senior governance and policy making body for information technology (IT) at the Bank, the committee ensures that the Bank's planning for and investment in IT supports the organisation's strategic goals.

These committees are responsible for overseeing the development and assessing the effectiveness of policies approved by the Bank's Board. 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, Risk Committees and the Boards.

RMD continues to provide advice and guidance on the credit, operational, market, liquidity, Shariah and general business risk to the Group. The scope of advice serves to manage and control significant risk exposures inherent to the Group's business operations as well as covers the identification of significant risks. 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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



RISK IDENTIFICATION

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



RISK MEASUREMENT

- 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.



RISK CONTROLS

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



RISK MONITORING AND REPORTING

- Risks are being monitored on an on-going basis. Risk Management reports addressing the Group's risk exposure (on an individual and portfolio basis), risk portfolio composition and risk management activities are submitted to the respective Management Led Committees, Risk Committees and the Boards for their review on a regular basis.
- Key risk indicators and early warning signals are monitored to ensure that sufficient and timely actions can be put in place to mitigate any potential risk.
- 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, Risk Committees and the Boards on a regular basis.
- Operational risk incidents highlighted in incident/loss event reports are also reported to the respective Management Led Committees, Risk Committees and the Boards regularly.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

- Merger integration between MBSB and the Bank (formerly known as Asian Finance Bank Bhd) which includes the following :
 - Conducted gap analysis and revised the risk related policies and procedures
 - Streamlining of current processes;
- Enhanced the ICAAP Framework;
- Developed Risk Informed Pricing Framework to be in line with BNM's Guidelines;
- Developed checklist for risk assessment on new vendors/procurement to ensure a comprehensive risk assessment is conducted by the respective departments/divisions;
- Conducted stress testing which includes the enhancement in the liquidity stress testing and determined the Internal Capital Target;
- Enhanced monitoring and reporting of major risk exposures in order to identify emerging risks on a timely basis;
- Enhancement of the Treasury Management System (Quantum) to facilitate risk monitoring;
- Implementation of the Asset Liability Management System to enhance risk reporting;
- Enhanced risk analysis and reporting through establishing the data warehouse via System for MBSB Analytics and Reporting (SMART) project which has been successfully rolled out in August 2018;
- Regulatory reporting to Bank Negara Malaysia (BNM) :
 - Reporting of Loss Event Data, Key Risk Indicators and Scenario Analysis via BNM Operational Risk Integrated Online Network (ORION) in order to monitor operational risk exposures.
 - Involved in BNM's reporting under Basel III and Capital Adequacy Framework;

- Conducted the testing on the effectiveness of the Liquidity Contingency Funding Plan to ensure the feasibility of the actions outlined in the plan;
- Development of Bank-Wide Key Risk Indicators which will facilitate the monitoring and control of risk in order to identify current risk exposures and emerging risks;
- Conducted continuous risk awareness training across all regions;
- Implementation of the Daily Risk and Compliance Certification for all branches in order to ensure continuous management of compliance and operational risk activities;
- Developed Shariah Non-Compliance checklist in order to recognize potential and actual Shariah non-Compliant.

RMD also reviews the Group's compliance to risk limits and identifies emerging risk issues. During the financial year, RMD has representation and provides feedback in decision-making meetings as follows:

MBSB

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

The Bank

- MANCO - Permanent Invitee
- MICC - Permanent Invitee
- ALCO - Member
- IAR - Member
- ITSC - Member

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 respective entities' Shariah Committee/ Advisor or the relevant bodies, such as the Shariah Advisory Council ("SAC") of BNM and the SAC of Securities Commission. With effect from 2 April 2018, upon the vesting of MBSB's Islamic Assets and Liabilities to the Bank, all Shariah activities are carried out at the Bank level.

The Bank has implemented controls as follows:

- 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 incident management, Risk and Control Self-Assessment and Key Risk Indicators 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

Information Technology Risk Management Framework

The Group endeavors to adopt sound Information Technology Risk Management (ITRM) practices based on industry best practices. This 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 organizational 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.

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. This is to ensure that all its operations and business activities are in accordance with Shariah principles as well as to provide comprehensive guidance to the Bank's Board, Shariah Advisory Committee and Management in discharging their duties in matters relating to Shariah. The Bank's Shariah Governance Framework reflects the responsibility of the 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 effective 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 1st-Management and Business Unit, 2nd-Shariah Advisory and Research, 3rd-Shariah Risk and 4th-Shariah Audit and Shariah Review.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTERNAL AUDIT DIVISION

The Internal Audit Division, reporting to the MBSB Audit Committee (“MBSB AC”) and Bank Board Audit Committee (“the Bank 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 MBSB AC and the Bank BAC with periodic follow-up reviews on actions taken. The Internal Audit Division assists the MBSB AC and Bank BAC in discharging the Committee’s duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of the MBSB and the Bank’s system of internal controls. In doing so, the Internal Audit Division adopts the industry practice based on the following guidelines/practices:-

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

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

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

- ii) International Professional Practice Framework

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

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

During the year, the Internal Audit Division has carried out independent and objective reviews in accordance with an approved audit plan covering credit assessment, credit operations, treasury, financial accounting, information technology, Shariah, outsourcing services, audit reviews on BNM regulatory requirements and operational controls. The annual audit plan is developed using a risk-based approach and is reviewed and approved by the Bank BAC. Shariah audit is embedded in the respective audit areas of the above.

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

COMPLIANCE FUNCTION

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

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

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

1. AML/CFT Compliance Programme

Compliance Division had undertaken several initiatives to ensure continuous compliance with BNM's Guidelines on AML/CFT (Sector 1) covering, inter-alia, transaction monitoring via newly deployed AML/CFT screening database and providing training and awareness to strengthen the Group's staff understanding and knowledge on the relevant requirements.

2. Regulatory and Shariah Compliance Review

The regulatory and Shariah compliance review were developed based on the mandatory reviews required by the respective BNM guidelines as well as gap analysis conducted on regulatory requirement and against the Bank's internal policies and procedures. Additionally, deliberation and subsequent coordination with Internal Audit Division (IAD) was put in place to ensure that there was no overlapping of review by both Divisions. Shariah Compliance review was also deliberated and approved by the Bank's SAC.

3. Development of Common Reporting Standards Health-Check

Compliance Division had developed a Common Reporting Standards (CRS) health-check which incorporated with the Foreign Account Tax Compliance Act (FATCA). The health-check is aimed to ensure that the branches and business divisions continuously comply with FATCA and CRS requirements during on-boarding process.

4. Validation of Compliance Health-Checks

Compliance Division had performed validation on the compliance health-checks including Shariah related health-checks, submitted by the branches and business divisions to ensure that the health-checks are implemented accurately, completely and effectively. The areas cover regulatory requirement such as AML/CFT, Personal Data Protection Act, FATCA, CRS and key pertinent Shariah contracts.

5. Implementation of Foreign Exchange Administration (FEA) Rules

Compliance Division had embarked on implementation of FEA Rules to support and facilitate trade, business and investment activities. The initiatives undertaken by Compliance Division includes enforcement of FEA Rules policies, putting in place numerous key control processes to facilitate compliance to FEA Rules. A number of trainings were also conducted to ensure all employees are aware of the requirements under the FEA Rules.

6. Appointment of Regional Compliance and Risk Officers

Regional Compliance and Risk Officers (RCRO) were appointed at all regional branches to oversee the overall compliance and risk areas in branches nationwide. Among the responsibilities of a RCRO are to validate health-checks submission by branches, to perform gap analysis relating to branch operations, acts as a business advisor for branches on compliance and risk matters, and to provide training to branch employees on compliance, risk and operational controls requirements.

7. Compliance Training and Awareness

Compliance training activities for 2018 were structured to focus on ensuring continuous adherence of relevant regulatory requirement from the regulatory bodies. The training plan also aims to update the Group's staff with latest and new development in term of requirements in AML/CFT and other regulatory requirements such as Responsible Financing Guidelines, FATCA, CRS and FEA Rules. Occurrence of non-compliance cases from thematic review or external regulatory review were also shared with the staff for their information and no recurrence.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

8. Other Compliance Initiatives

Compliance Division had undertaken the following activities for the year of 2018:

- a. Continuation of Gap Analysis exercise for BNM Guidelines for the Group
- b. Product and business advisory activities for the Bank
- c. Development of CRS Framework for the Bank
- d. Involvement in Project Steering Committees (PSC) and Project Working Groups (PWG) for all newly implemented banking products and services for the Bank
- e. Active member of Organization & Methods Working Group (OMWG) in reviewing all the Group's policies and procedures for the Group
- f. Appointment of Designated Compliance and Risk Officers (DCORO)

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

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

- An Approving Authority Manual with appropriate empowerment and authority limits has been approved by the respective Boards including authorization limits at various levels of Management, to ensure accountability and responsibility;

OTHER KEY ELEMENTS OF INTERNAL CONTROL

The other key elements of the procedures established by the Group that provide 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 clear 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 Bank Board on an annual basis. The Bank Board also reviews the operational and financial performance of the Bank. Quarterly management reports are presented to the Bank's Board providing information on the financial performance and risk exposure of the Bank to enable the Bank Board to effectively oversee the Bank's overall performance objectives, key initiatives, financial plans and annual budget;
- The Risk Appetite Statement (incorporated under the ICAAP Framework) which articulates the nature, type and level of risk the Bank is willing to assume is reviewed and approved by the Bank Board on an annual basis. The compliance to the risk appetite is monitored on a periodic basis and any non-compliance to the Risk Appetite Statement is reported to the Bank Board;
- The Risk Control and Self-Assessment (RCSA) serves as a tool to empower risk owners to perform risk analyses on their business operations. The RCSA allows risk owners to identify, assess, mitigate, monitor and report operational risk at a process level. The objective is to ensure that processes become inherently stronger, in its effort to reduce residual risk and the number of lapses in the processes;
- Business Continuity Management (BCM) policies have been established for the 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 the Bank to resume critical operations within the required timeframes and minimizes the cost of damages and interruptions due to disasters;

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- 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;
- A strong risk culture is promoted within the Group, which supports and provides appropriate standards and incentives for professional and responsible behavior;
- Recruitment procedures are established within the Group to ensure that the right and appropriate persons are selected to fill available positions including the Fit and Proper Requirements Policies & Procedures which was developed for key responsible persons. Formal training programs either face-to-face or through e-learning, semi and annual performance appraisals, and other relevant procedures are in place to ensure that staff are adequately trained and competent to enable them to discharge their duties and responsibilities effectively. Proper guidelines are also drawn up for termination of staff;
- Employees are bound to observe prescribed standards of business ethics when conducting themselves at work and in their relationship with external parties, such as customers and suppliers. The Guidelines on the Code of Ethics and Conduct for Directors, Officers and Employees set out the standards of good and ethical banking practices, and aims to maintain confidence in the security and integrity of the Group's business practices. Employees are expected to comply with the Guidelines on the Code of Conduct for Directors, Officers and Employees to conduct themselves with integrity and objectivity and not be placed in a position of conflict of interest;
- 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 staff 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 Group participates in forums and trainings to stay informed on fraud events and controls. To this extent, the Fraud & Corruption Control Policies & Procedures has been disseminated to all employees in order to ensure the Policy requirements are implemented and strictly followed consistently. All employees and intermediaries are made aware of the stance on fraud and their responsibilities in relation to fraud prevention. 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 robust and comprehensive 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. Appropriate fraud awareness information to all employees is provided upon commencement of employment. Where suspected fraud is detected, the Group ensures prompt investigations and disciplinary actions are taken accordingly;

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- 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 the highest ethical and professional standards, in accordance with the AML/CFT Framework and to continuously be vigilant against the Group being exposed or used to launder money or finance illegal activities including terrorist financing.
- The Group has embraced technology to improve customer experience and achieve greater levels of operational efficiency. Concurrently, maintaining the integrity of operations, including cyber security, remains one of the key priorities. To strengthen and complement IT risk management framework, the Group has introduced a 3 phased security upgrade and enhancements in securing the Group further with the increasing threat posed using technology. The 3 phases will be deployed throughout 2018 up to the first half of 2019. This coincides closely with the availability of the Group's internet banking and cash recycling machine facilities. Protection of customers data is paramount and have been included as part of this delivery. The Group's Security Operations Center was put into effect in November 2018 and encompasses relevant tools in managing the technology security aspects of the Group.

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in the annual report for the financial year ended 31 December 2018. Their review was performed in accordance with AAPG 3 Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report ("AAPG 3") issued by the Malaysian Institute of Accountants. Based on their review, the external auditors have reported that this Statement is consistent with their understanding of the process that the Board has adopted in the review of the adequacy and effectiveness of the Group risk management and internal control system.

AAPG3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control procedures.

MBSB 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 27 March 2019.

REPORT OF THE AUDIT COMMITTEE

1.0 PURPOSE

The establishment of MBSB Audit Committee (MBSB AC) and the Bank Board Audit Committee (Bank BAC) are to assist the Board of Directors (Boards) of both Malaysia Building Society Berhad (MBSB) and MBSB Bank Berhad (MBSB Bank) in the following: -

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

2.0 COMPOSITION OF MBSB AC AND BANK BAC

2.1 MBSB AC

Encik Lim Tian Huat as the Chairman of MBSB AC is a Council Member of Insolvency Practitioners Association of Malaysia, a Fellow of the Association of Chartered Certified Accountants and a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. This is in line with the requirement of the Bursa Securities Listing Requirements which requires at least one qualified accountant as a member of MBSB AC.

During the FY2018, a total of 9 MBSB AC meetings were held. The composition of MBSB AC members and attendance of each member at the Committee meetings held during the financial year are as follows:

NAME OF MEMBERS	NUMBERS OF MEETING ATTENDED OR HELD
Encik Lim Tian Huat (Chairman)	9/9
Ir Moslim Othman <i>* appointed as AC member on 6 February 2018</i>	8/8
Puan Lynette Yeow Su-Yin <i>* appointed as AC member on 6 February 2018</i>	8/8
Encik Aw Hong Boo <i>* resigned as AC member on 6 February 2018</i>	1/1
Dato' Jasmy Ismail <i>* resigned as AC member on 6 February 2018</i>	1/1
Encik Sazaliza Bin Zainuddin <i>* resigned as AC member on 6 February 2018</i>	1/1

The Chairman of MBSB AC reports to the Board on matters deliberated during the Audit Committee meetings. Minutes of each meeting are tabled to the Board for notification.

REPORT OF THE AUDIT COMMITTEE

2.2 BANK BAC

Encik Aw Hong Boo as the Chairman of the Bank BAC is a Fellow of Institute of Chartered Accountants in England & Wales (ICAEW), a member of Malaysian Institute of Accountants (MIA) and Malaysian Institute of Certified Public Accountant (MICPA).

During the FY2018, a total of 13 Bank 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:

NAME OF MEMBERS	NUMBERS OF MEETING ATTENDED OR HELD
Encik Aw Hong Boo (Chairman) <i>* appointed as the Bank BAC member on 7 February 2018</i>	13/13
Tunku Alina Raja Muhd Alias <i>* appointed as the Bank BAC member on 7 February 2018</i>	13/13
Dr Loh Leong Hua <i>* From AFB (resigned as Bank BAC member on 7 February 2018)</i> <i>* appointed as the Bank BAC member on 1 June 2018</i>	9/9
Datuk Azrulnizam bin Abdul Aziz <i>* appointed as Bank BAC member on 7 February 2018</i> <i>* resigned as Bank BAC member on 24 May 2018</i>	6/6
Dato' Dr. Md. Khir Abdul Rahman <i>* resigned as the Bank BAC member on 7 February 2018</i>	2/2
Encik Abdul Rahim Abdul Hamid <i>* resigned as the Bank BAC member on 7 February 2018</i>	2/2

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

REPORT OF THE AUDIT COMMITTEE

3.0 AUTHORITY OF MBSB AC AND BANK BAC

The MBSB AC and Bank BAC (the Committees), in discharging their duties, have explicit authority to investigate any matters within their terms of reference. The Committees have full access to and co-operation from the Management which include discretion to invite the Group President and Chief Executive Officer, Management Team, Chief Internal Auditor and external auditors to attend their meetings. The Committees shall have the right to obtain the necessary resources to enable the Committees in performing their duties and an independent professional advice if necessary, with any expenses related thereto to be borne by MBSB Group.

4.0 SUMMARY OF ACTIVITIES OF MBSB AC AND BANK BAC

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

4.1 Financial Reporting

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

4.2 Internal Audit

- a) Reviewed and approved the risk-based Annual Audit Plan (AAP) to ensure adequate scope, procedures, frequency, functions and coverage over the activities of MBSB Group.
- b) Reviewed the internal audit budget, resources, initiatives, skills and competencies.
- c) Reviewed the status of completion of the AAP for the year and assessed the performance and effectiveness of the Internal Audit Division (IAD).
- d) Reviewed the internal audit reports and investigation reports tabled during the year, which outlined the audit issues, recommendations and management's response. Discussed with the management and where appropriate, directed management to rectify and improve the system of internal controls and workflow processes based on the internal auditors' recommendations for improvement to ensure control lapses are addressed.
- e) Monitored the corrective actions taken on the outstanding audit issues to ensure that all key risks and control lapses have been addressed and implemented by the management.
- f) Reviewed the minutes of the Committees meeting and matters arising based on the previous meetings.

4.3 External Audit

- a) Reviewed with the external auditors:-
 - their audit planning memorandum for the year ended 31 December 2018 comprising their audit plan, audit strategy and scope of work for the year.
 - their annual audit report and management letter together with management's response to the findings of the external auditors.
 - updates of new developments on Financial Reporting Standards issued by the Malaysian Accounting Standards Board.
- b) Met the external auditors twice for discussion without the presence of the Management.

REPORT OF THE AUDIT COMMITTEE

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 Committees also received from the external auditors their written confirmation regarding their independence and the measures used to control the quality of their work.

d) Evaluate the performance and effectiveness of the external auditors and made recommendations to the Board of Directors on their audit fees and for their reappointment to hold office until the conclusion of the next annual general meeting. The evaluation of the external auditor would include the following:

i) Performance

- Level of knowledge, capabilities, experience and quality of previous work;
- Level of engagement with the board;
- Ability to provide constructive observation, implications and recommendation in areas which require improvement;
- Appropriateness of audit approach and the effectiveness of audit planning; and
- Ability to perform the audit work within the agreed duration given.

ii) Independence and objectivity

- Non-audit services rendered by auditor does not impede independence; and
- Auditor demonstrates unbiased stance when interpreting the standards/policy adopted by a financial institution.

4.4 Policy Review and Other Matters

Reviewed the Audit Charter, the Committees' Terms of Reference and External Audit Policy and Procedures for the respective Boards' approval.

4.5 Annual Report

Reviewed and recommended the Report of the Audit Committee for the respective Boards' approval for inclusion in the Annual Report for the FY2018.

4.6 Appointment of PricewaterhouseCoopers

Reviewed and recommended for the Bank Board's approval the appointment of PricewaterhouseCoopers (PwC) to conduct quality assurance review on Internal Audit Division of MBSB Bank.

4.7 Appointment of Deloitte Enterprise Risk Services Sdn Bhd.

Reviewed and recommended for the Bank Board's approval the appointment of Deloitte Enterprise Risk Services Sdn Bhd to co-source the Bank Negara Malaysia's (BNM's) statistical reporting audit for MBSB Bank.

4.8 Directors' Training

During the year, the Committees members have attended the relevant training programmes, conferences and seminars as disclosed in the Corporate Governance Report 2018.

4.9 Related Party Transaction

Reviewed any related party transactions and conflict of interest situation that may arise within MBSB Group including any transaction, procedures or course of conduct that raises questions on Management's integrity and update the board on all related party transactions.

REPORT OF THE AUDIT COMMITTEE

5.0 STATEMENT ON INTERNAL AUDIT FUNCTION FOR MBSB AC AND BANK BAC

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

5.2 The function of the IAD is to assist the Committees in discharging the Committees' duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of the MBSB Group's system of internal controls. The IAD is adopting the relevant requirements on internal audit:

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

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

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

ii) 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".

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

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

- i) Resources are effectively and economically utilised.
- ii) Internal controls are adequate, efficient and effective.
- iii) The objectives of MBSB Group are being achieved efficiently and effectively.
- iv) The established policies and procedures are being followed.

5.4 The IAD reports directly to the Committees and administratively to the Group President and Chief Executive Officer.

5.5 The Chief Internal Auditor is also invited to attend various level of Committees' meetings at both MBSB and MBSB Bank i.e. Management Committees, Risk Management Committee (RMC) / Board Risk Management and Compliance Committee (BRMCC) and IT Steering Committee as permanent invitee /observer.

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

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

5.7 The IAD provides periodic reports to the Committees 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 Committees to execute their oversight function by forming an opinion on the adequacy of measures undertaken by the Management.

REPORT OF THE AUDIT COMMITTEE

- 5.8 Prior to the merger acquisition between MBSB and Asian Finance Bank Berhad (AFB), the following activities were undertaken by the IAD and the reports were presented at MBSB AC: -
- a) Presented its risk-based audit plan, audit budget and scope of work to MBSB AC for approval. The internal auditors have adopted a risk-based approach towards the planning and conduct of audits, which is designed to evaluate and monitor MBSB Group's internal controls system.
 - b) Conducted the scheduled audits, ad-hoc audit assignments and investigations which the audit reports were tabled to MBSB AC highlighting the audit findings, issues and recommendations for improvement. The scheduled audits were of the following: -
 - Credit audit of Head Office covering the credit underwriting of post disbursed loan, credit operations, security documentation and 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 Facility Management, Secretarial, Branch Network and Group Risk with the primary objective to ensure effective operations processes are discharged.
 - Information System (IS) audit with the primary objective is to ensure that the in-house application system and those outsourced systems in respect of the process data migration, operations, access control, business continuity & disaster recovery, physical security, maintenance and its contingency planning are in accordance with MBSB Group's policies and procedures.
 - c) Conducted investigations into activities or matters as instructed by MBSB AC and the Management. The outcomes from the investigations were tabled to MBSB AC and / or the Board.
- 5.9 The IAD had also presented the reports on relevant activities undertaken by the IAD after the merger acquisition such as quarterly reports on the status of audit activities to MBSB AC and the Board as well as the follow-up on the status of unresolved audit findings to MBSB AC.
- 5.10 Arising from the merger acquisition, all Islamic assets and liabilities have been transferred to MBSB Bank. The following activities were undertaken by the IAD and the reports were presented at the Bank BAC: -
- a) Presented its revised risk-based audit plan, audit budget and scope of work to the Bank 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 MBSB Bank's internal controls system.
 - b) Conducted the scheduled audits and ad-hoc audit assignments which the audit reports were tabled to the Bank BAC highlighting the audit findings, issues and recommendations for improvement. The scheduled audits were of the following:-
 - Finance audit with the primary objective is to provide an independent, reasonable assurance of the accounting system and information.
 - 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.
 - 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.
 - 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.

REPORT OF THE AUDIT COMMITTEE

- Information System (IS) audit with the primary objective is to ensure that the in-house application system and those outsourced systems in respect of the process data migration, operations, access control, physical security, maintenance and its contingency planning are in accordance with MBSB Bank's policies and procedures.
- Audit of 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.
- Operational audit which includes the audit of outsourcing companies with the primary objective to ensure compliance with the outsourcing policies and procedures.
- Audit of selected support business divisions / departments to ensure proper internal control and compliance with the respective policies and procedures.
- Audit of Related Party Transaction to ensure no conflict of interest arose when approving the financing facilities as well as appointing the vendors.
- Shariah Audit was embedded in the respective audit assignments in ensuring compliance with Shariah rules and principles as prescribed by MBSB Bank's Shariah Advisory Committee (SAC), policies and procedures and relevant BNM's guidelines.

For 2018, the IAD had conducted the shariah audit review on the commodity trading transactions in respect of personal financing with the objective to ensure that adequate controls were in place to ascertain the validity of the commodity trading transactions as well as 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 SAC and the Bank BAC for notification and deliberation.

- c) Conducted investigations into activities or matters as instructed by the Bank BAC and Management. The outcomes from the investigations were tabled to the Bank BAC and / or the Bank Board.
- d) Followed-up on management corrective actions on unresolved audit findings and reported the status to the Bank BAC.
- e) 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.
- f) Provided quarterly reports on the status of audit activities to the Bank BAC.
- g) Provided advisory services to review the operational guidelines and manuals to ensure pertinent controls embedded are consistent with the changes in businesses and operations.
- h) 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.
- i) 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 MBSB Group was set up in August 2018. For the financial year (FY) 2018, the ICR has completed and tabled to the Bank BAC its Terms of Reference, Charter and Manual and 1 audit assignment i.e. review of corporate financing turnaround time.

5.11 The cost incurred for the internal audit function in respect of the FY2018 amounted to RM3,987,399.

6.0 INTERNAL AUDIT REPORTS

The IAD has completed 90 assignments (17 BNM's requirements and 73 internal audit assignments) and 48 consultancy services during the year covering the audits of all key operations and investigations. All findings by the IAD are tracked and followed-up until closure.



Perusahaan ini bertanggung jawab atas integritas dan keakuratan informasi keuangan yang disajikan dalam laporan keuangan ini.

FINANCIAL STATEMENTS

93	Directors' Responsibility Statement
94	Directors' Report
100	Statement by Directors
100	Statutory Declaration
101	Independent Auditors' Report
105	Statements of Financial Position
107	Statements of Comprehensive Income
108	Statements of Changes in Equity
110	Statements of Cash Flows
112	Notes to the Financial Statements

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

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

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

Principal activities

The Company was principally engaged in investment holding, money market activities, provision of financing, advances and financial guarantees on a secured and unsecured basis, which includes Islamic financing, and other related financial services. On 7 February 2018, the Company acquired MBSB Bank Berhad (formerly known as Asian Finance Bank Berhad) ("the Bank"). On 2 April 2018, the Company had via the First Tranche Transfer, transferred all of its Shariah-compliant assets and liabilities to the Bank. The transfer was implemented through a members' scheme of arrangement pursuant to Section 366 of the Companies Act, 2016 by way of a Vesting Order dated 28 February 2018 from the High Court of Malaya.

Since the transfer on 2 April 2018, the Company was no longer involved in the money market activities and did not give out loans and advances. The Company continues to manage the remaining conventional loans and advances.

The principal activities of the subsidiaries are described in Note 15. 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	642,400	200,395

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

Dividends

The amount of dividend paid by the Company since 31 December 2018 was as follows:

	RM'000
In respect of the financial year ended 31 December 2017:	
- single-tier final dividend of 5.0 sen net per ordinary share on 6,149,933,174 ordinary shares approved on 25 June 2018, paid on 3 August 2018	307,497

On 8 April 2019, the Company announced the proposed single-tier final dividend of 5.0 sen net per ordinary share in respect of the financial year ended 31 December 2018. Based on the number of shares in issue of 6,389,101,298 ordinary shares as at 31 December 2018, the dividend payable would be RM319,455,065.

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 2019.

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

DIRECTORS' REPORT

Directors

The directors of the Company in office since the 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
Datuk Shahril Ridza bin Ridzuan (Resigned on 20 August 2018)
Datuk Syed Zaid bin Syed Jaffar Albar (Resigned on 6 February 2018)
Dato' Jasmy bin Ismail (Resigned on 6 February 2018)
Encik Aw Hong Boo (Resigned on 6 February 2018)
Encik Sazaliza bin Zainuddin (Resigned on 6 February 2018)
Datuk Johar bin Che Mat (Resigned on 6 February 2018)
Tunku Alina binti Raja Muhd Alias (Resigned on 6 February 2018)

MBSB Bank Berhad

Datuk Azrulnizam bin Abdul Aziz
Datuk Johar bin Che Mat
Tan Sri Abdul Halim bin Ali (Appointed on 7 February 2018)
Encik Sazaliza bin Zainuddin (Appointed on 7 February 2018)
Encik Aw Hong Boo (Appointed on 7 February 2018)
Puan Lynette Yeow Su-Yin (Appointed on 7 February 2018)
Tunku Alina binti Raja Muhd Alias (Appointed on 7 February 2018)
Dr. Loh Leong Hua (Resigned on 9 February 2018 and reappointed on 1 June 2018)
Dr. Saleh Jameel Malaikah (Resigned on 7 February 2018)
Encik Zakir Hussain Rizvi (Resigned on 7 February 2018)
Dato' Dr. Md Khir Abdul Rahman (Resigned on 9 February 2018)
Dato' Dr. Vaseehar Hassan Abdul Razack (Resigned on 9 February 2018)
Abdul Rahim Abdul Hamid (Resigned on 9 February 2018)

Other subsidiaries of the Company

Encik Tang Yow Sai
Puan Azlina Mohd Rashad
Encik Asrul Hazli Salleh
Encik Hazim Dato' Yahya
Cik Norhayati binti Azit
Encik Lim Tian Huat
Yam Kwai Ying Sharon (Appointed on 1 August 2018)
Encik Loke Chee Kien (Resigned on 1 August 2018)
Dato' Azman Aziz (Resigned on 31 October 2018)

Directors' benefits

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

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 38 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest. The Group directors and officers are covered by Directors' and Officers' Liability Takaful. The total insurance coverage amounts to RM30,000,000 and the annual insurance premium that is payable amounts to RM79,510.

DIRECTORS' REPORT

Directors' interests

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

Name of director	1.1.2018	Number of ordinary shares		31.12.2018
		Acquired	Sold	
<i>Direct interest:</i>				
<i>Ordinary shares of the Company</i>				
Tan Sri Abdul Halim bin Ali	238,667	11,699	-	250,366

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

Issue of shares

During the financial year, the Company increased its issued and paid up ordinary share capital by RM510,050,897 from RM6,172,050,894 to RM6,682,101,791 as follows:

	Number of new ordinary shares Units '000	RM '000	Issue/ exercise price
Issuance of new shares for cash pursuant to:			
Exercise of Special Issue (DRP)	239,168	243,952	1.02
	239,168	243,952	
Issued on 7 February 2018 pursuant to the acquisition of the entire equity interest in MBSB Bank Berhad	225,508	266,099	1.18
	464,676	510,051	

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

Employee Share Option Scheme

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

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

DIRECTORS' REPORT

Employee Share Option Scheme (cont'd.)

The salient features and other terms of the ESOS are disclosed in Note 29(a) to the financial statements.

Details of the options to subscribe for ordinary shares of the Company pursuant to the ESOS as at 31 December 2018 are as follows:

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

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

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

Name	Revised Exercise Price RM	Number of Share Options			
		← 1.1.2018	Granted	Exercised	→ 31.12.2018
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
	1.42	422,178	-	-	422,178
Salim Yazan Bin Gulzar Mohamed	1.52	418,577	-	-	418,577
	1.02	147,979	-	-	147,979
Asrul Hazli Bin Salleh	1.42	260,180	-	-	260,180
	1.00	268,111	-	-	268,111
Koh Ai Hoon	1.42	109,014	-	-	109,014
	1.42	321,298	-	-	321,298
Tamin Bin Jafeeri	1.00	222,516	-	-	222,516
	1.42	66,232	-	-	66,232
Nor Azam Bin M. Taib	1.02	108,991	-	-	108,991
	1.42	173,480	-	-	173,480
Azlina Binti Mohd Abdul Karim @ Alias	1.52	276,643	-	-	276,643
	1.52	276,643	-	-	276,643
Md Azhar Bin Md Ali	1.52	276,643	-	-	276,643
	1.52	276,643	-	-	276,643
Hasliza Binti Ismail	1.52	276,643	-	-	276,643
	1.52	276,643	-	-	276,643

Statement of Corporate Governance

The Board of Directors ("the Board") of the Company are 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.

DIRECTORS' REPORT

Business review for 2018

The Group registered a profit before taxation and zakat of RM854 million for 2018 as compared to profit before taxation and zakat of RM551 million in prior year. Gross loans, financing and advances for the Group as at 31 December 2018 stood at RM35,173 million (2017: RM34,201 million) whilst total deposits from customers and placements of banks and other financial institutions stood at RM32,788 million (2017: RM32,755 million).

The Group's business, policies and operations have been realigned following the merger with MBSB Bank Berhad (formerly known as Asian Finance Bank Berhad) on 7 February 2018. Investments were being made to upgrade and improve the delivery of products and services at various channels including internet and mobile banking. These investments include upgrade and enhancement of information technology infrastructure and services, people resources and upgrading of branches. The merger is further elaborated in Note 53.

Outlook for 2019

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 expand its products and services which include trade finance, wealth management and internet and mobile banking to cater for various segments of our customers and depositors.

Barring any unforeseen circumstances, the Group's prospects for the year is expected to be satisfactory.

Other statutory information

- (a) Before the statements of financial position and statements of comprehensive income of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

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 47 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 event during the financial year

Significant event during the financial year is disclosed in Note 53 to the financial statements

Auditors

The auditors, Ernst & Young, will not be seeking reappointment to continue in office. The auditors' remunerations are disclosed in Note 36 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 April 2019.

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 105 to 245 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 2018 and of the financial performance and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 April 2019.

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 105 to 245 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Tang Yow Sai at
Kuala Lumpur in the Federal
Territory on 19 April 2019

Tang Yow Sai

Before me,

INDEPENDENT AUDITORS' REPORT

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

Report on the financial statements

Opinion

We have audited the financial statements of Malaysia Building Society Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of comprehensive income, the statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 105 to 245.

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 2018, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Key audit matters

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

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

Adequacy of impairment allowance for loans, advances and financing

As at 31 December 2018, the loans, advances and financing represent 72.9% and 18.2% of the total assets of the Group and of the Company respectively.

The adoption of MFRS 9 *Financial Instruments* has fundamentally changed the Group and the Company's accounting for loan and financing loss impairment by replacing MFRS 139 *Financial Instruments: Recognition and Measurement's* incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

The measurement of ECL requires the application of significant judgement 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, forward looking macroeconomic factors and probability-weighted multiple scenarios.

INDEPENDENT AUDITORS' REPORT

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

Key audit matters (cont'd.)

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

Refer to summary of significant accounting policies in Note 2(l), significant accounting estimates and judgements in Note 4(b) and the disclosures of loans, advances and financing in Note 10 to the financial statements.

Our audit procedures included the assessment of key controls over the origination, segmentation, ongoing internal credit quality assessments, recording and monitoring of the loans, advances and financing and the investments.

We also assessed the processes and effectiveness of key controls over the transfer criteria (for the three stages of credit exposures under MFRS 9 in accordance with credit quality), impairment measurement methodologies, governance for development, maintenance and validation of ECL models, inputs, basis and assumptions used by the Group and the Company in staging the credit exposures and calculating the ECL.

For staging and identification of credit exposures with significant deterioration in credit quality, we assessed and tested the reasonableness of the transfer criteria applied by the Group and the Company for different types of credit exposures. We evaluated if the transfer criteria are consistent with the Group and the Company's credit risk management practices.

For the measurement of ECL, we assessed and tested reasonableness of the Group's and the Company's ECL models, including model input, model design and model performance for significant portfolios. We challenged whether historical experience is representative of current circumstances and of the recent losses incurred in the portfolios and assessed the reasonableness of forward looking adjustments, macroeconomic factor analysis and probability-weighted multiple scenarios.

With respect to individually assessed ECL which are mainly in relation to the impaired assets in Stage 3, we reviewed and tested a sample of loans, advances and financing and to evaluate the timely identification by the Group and the Company of exposures with significant deterioration in credit quality or which have been impaired. For cases where impairment has been identified, we assessed the Group's and the Company's assumptions on the expected future cash flows, including the value of realisable collaterals based on available market information, the timing of the recovery and the multiple scenarios considered.

We also assessed whether the financial statement disclosures are adequate and appropriately reflect the Group's and the Company's exposures to credit risk.

Impairment of provisional goodwill

As at 31 December 2018, the provisional goodwill recognised in the financial statements of the Group is RM188.8 million (as disclosed in Note 19), arising from the acquisition of a subsidiary i.e. MBSB Bank Berhad (formerly known as Asian Finance Bank Berhad) during the financial year as disclosed in Note 53 to the financial statements. The goodwill has been recorded on a provisional basis pending the completion of the purchase price allocation which will be finalized in the next financial year.

The Group has performed an impairment assessment on the provisional goodwill. Goodwill impairment testing of cash generating units ("CGUs") relies on estimates of value-in-use ("VIU") based on estimated future cash flows. These involve management judgement and are based on assumptions that are affected by expected future market and economic conditions.

Refer to summary of significant accounting policies in Note 2(c)(i), significant accounting estimates and judgement in Note 4(b) and the disclosure of intangible assets in Note 19 to the financial statements.

Our audit procedures included, among others, evaluating the assumptions and methodology used by the Group in performing the impairment assessment. We tested the basis of preparing the cash flow projections taking into account the historical evidence supporting underlying assumptions. We assessed the appropriateness of the other key assumptions, such as the growth rates used to extrapolate the cash flows and the discount rate applied, by comparing against internal information, and external economic and market data. We also assessed the sensitivity analysis performed by management on the key inputs to the impairment model, to understand the impact that reasonable alternative assumptions would have on the overall carrying amounts.

INDEPENDENT AUDITORS' REPORT

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

Information other than the financial statements and auditors' report thereon

The directors of the Group and of the Company are responsible for the other information. The other information comprises directors' report and annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITORS' REPORT

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, is disclosed in Note 15 to the financial statements.

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Chan Hooi Lam
No. 02844/02/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
19 April 2019

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2018

	Note	Group	
		2018 RM'000	2017 RM'000
Assets			
Cash and short-term funds	5(a)	3,411,986	7,787,132
Deposits and placements with other financial institutions	5(b)	931,087	747,403
Derivative financial assets	6	67	-
Financial investments at fair value through other comprehensive income ("FVOCI")	7	5,097,105	-
Financial investments available-for-sale	8	-	3,171,913
Financial investments at amortised cost	9	20,350	-
Loans, financing and advances	10	33,133,119	32,006,244
Financial assets held-for-sale	11	-	38,409
Trade receivables	12	561	295
Other receivables	13	243,047	218,413
Statutory deposits with Bank Negara Malaysia	14	1,053,000	-
Investments in Joint venture	16	-	-
Inventories	17	102,432	103,242
Property and equipment	18	297,567	168,504
Intangible assets	19	293,513	14,633
Investment properties	20	820	-
Land use rights	21	5,262	5,423
Deferred tax assets	22	34,318	31,359
Tax recoverable		801,278	517,177
Total assets		45,425,512	44,810,147
Liabilities and shareholders' equity			
Deposits from customers	23	24,209,449	25,526,548
Deposits and placements of banks and other financial institutions	24	8,578,851	7,228,589
Derivative financial liabilities	6	2	-
Trade payables	25	225	210
Other payables	26	650,767	377,327
Recourse obligation on loans/financing sold	27	2,135,518	2,238,167
Sukuk - MBSB Structured Covered ("SC") Murabahah	28(a)	1,968,075	2,287,877
Provision for taxation and zakat		36,901	16,410
Deferred tax liabilities	22	60,120	10,156
Total liabilities		37,639,908	37,685,284
Ordinary share capital	29	6,682,102	6,172,051
Reserves	30	16,873	(395)
Retained earnings		1,086,629	953,207
Total equity		7,785,604	7,124,863
Total liabilities and shareholders' equity		45,425,512	44,810,147
Commitments and contingencies	46	6,538,250	7,775,301

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

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2018

	Note	Company	
		2018 RM'000	2017 RM'000
Assets			
Cash and short-term funds	5(a)	155,077	7,768,634
Deposits and placements with financial institutions	5(b)	154,347	51,368
Financial investments available-for-sale	8	-	3,171,913
Sukuk Commodity Murabahah	28(b)	-	3,245,851
Loans, financing and advances	10	1,326,502	32,006,244
Financial investments held-for-sale	11	-	38,409
Other receivables	13	148,672	539,955
Investments in subsidiaries	15	4,756,328	7,397
Inventories	17	-	900
Property and equipment	18	24,831	34,096
Intangible assets	19	-	14,588
Deferred tax assets	22	15,687	21,187
Tax recoverable		710,610	517,177
Total assets		7,292,054	47,417,719
Liabilities and shareholders' equity			
Deposits from customers	23	-	25,526,548
Deposits and placements of banks and other financial institutions	24	-	7,228,589
Other payables	26	239,669	3,278,537
Recourse obligation on loans/financing sold	27	-	2,238,167
Sukuk - MBSB Structured Covered ("SC") Murabahah	28(a)	-	2,287,877
Provision for taxation and zakat		4,787	13,374
Total liabilities		244,456	40,573,092
Ordinary share capital	29	6,682,102	6,172,051
Reserves	30	6,261	(395)
Retained earnings		359,235	672,971
Total equity		7,047,598	6,844,627
Total liabilities and shareholders' equity		7,292,054	47,417,719
Commitments and contingencies	46	39,909	7,355,440

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

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue	31	3,145,937	3,259,763	812,513	3,008,175
Income derived from investment of general investment deposits and Islamic capital funds	32	2,604,687	2,422,414	609,344	2,543,830
Income attributable to depositors		(1,272,930)	(1,077,119)	(304,799)	(1,077,119)
Income attributable to securitisation		(97,665)	(96,978)	(24,843)	(96,978)
Income attributable to sukuk		(107,299)	(122,675)	(69,836)	(329,908)
Net income from Islamic financing operations		1,126,793	1,125,642	209,866	1,039,825
Interest income	33	216,796	427,821	174,530	390,566
Interest expense	34	(21,832)	(152,299)	(21,832)	(152,299)
Net interest income		194,964	275,522	152,698	238,267
Operating income		1,321,757	1,401,164	362,564	1,278,092
Net other income	35	53,963	80,584	45,593	73,282
Net income		1,375,720	1,481,748	408,157	1,351,374
Other operating expenses	36	(406,280)	(289,800)	(120,917)	(273,307)
Operating profit		969,440	1,191,948	287,240	1,078,067
Impairment allowance	39	(115,867)	(641,216)	(11,338)	(646,142)
Profit before taxation and zakat		853,573	550,732	275,902	431,925
Taxation	40	(198,173)	(121,735)	(75,507)	(115,786)
Zakat		(13,000)	(11,871)	-	(11,871)
Profit for the year		642,400	417,126	200,395	304,268
Other comprehensive income - Fair value reserve (net increase), which may be reclassified subsequently to profit or loss		17,268	13,154	6,656	13,154
Total comprehensive income for the year, net of tax		659,668	430,280	207,051	317,422
Earnings per share (sen)					
Basic	41(a)	10.32	7.10		
Diluted	41(b)	10.32	7.10		

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

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2018

Group	Share Capital RM'000	Share Premium ^{#1} RM'000	Capital Reserve ^{#2} RM'000	Warrants Reserve RM'000	Capital Redemption Reserve ^{#3} RM'000	Share Option Reserve (Note 30) RM'000	Fair value Reserves (Note 30) RM'000	Total RM'000	Retained profits RM'000	Total RM'000	Other Reserves	
											Share Capital RM'000	Share Premium ^{#1} RM'000
At 1 January 2017	5,798,774	198,449	17,838	3,633	12,486	6,810	(19,810)	(13,000)	705,868	6,724,048		
Profit for the year	-	-	-	-	-	-	-	-	417,126	417,126		
Other comprehensive income for the year	-	-	-	-	-	-	13,154	13,154	-	13,154		
Total comprehensive income for the year	-	-	-	-	-	-	13,154	13,154	417,126	430,280		
Dividends (Note 42)	-	-	-	-	-	-	-	-	(173,963)	(173,963)		
Issuance of ordinary shares pursuant to exercise of DRP	144,491	-	-	-	-	-	-	-	-	144,491		
Issuance of ordinary shares pursuant to exercise of ESOS	13	-	-	-	-	(6)	-	(6)	-	7		
Transfer of share option reserve to retained profits upon expiry of share options	-	-	-	-	-	(543)	-	(543)	543	-		
Transfer of share premium to share capital	198,449	(198,449)	-	-	-	-	-	-	-	-		
Transfer of warrant reserve to retained profits	-	-	-	(3,633)	-	-	-	-	3,633	-		
Transfer of capital redemption reserve redeemable cumulative preference shares to share capital	12,486	-	-	-	(12,486)	-	-	-	-	-		
Transfer of capital reserve to share capital	17,838	-	(17,838)	-	-	-	-	-	-	-		
At 31 December 2017	6,172,051	-	-	-	-	6,261	(6,656)	(395)	953,207	7,124,863		
Effects of adopting MFRS 9 (Note 3(a))	-	-	-	-	-	-	-	-	(201,481)	(201,481)		
Profit for the year	6,172,051	-	-	-	-	6,261	(6,656)	(395)	751,726	6,923,382		
Other comprehensive income for the year	-	-	-	-	-	-	17,268	17,268	642,400	642,400		
Total comprehensive income for the year	-	-	-	-	-	-	17,268	17,268	642,400	659,668		
Dividends (Note 42)	-	-	-	-	-	-	-	-	(307,497)	(307,497)		
Issuance of ordinary shares pursuant to exercise of DRP	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	16,873	1,086,629	7,785,604		

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

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

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

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

STATEMENTS OF CHANGES IN EQUITY

or the year ended 31 December 2018

Company	Share Capital RM'000	Share Premium ^{#1} RM'000	Capital Reserve ^{#2} (Note 30) RM'000	Warrants Reserve (Note 30) RM'000	Redeemable Preference Shares (Note 30) RM'000	Capital Redemption Reserve ^{#3}	Other Reserves			Retained profits RM'000	Total RM'000
							Share Option Reserve (Note 30) RM'000	Fair value Reserves (Note 30) RM'000	Total RM'000		
At 1 January 2017	5,798,774	198,449	17,838	3,633	12,486	-	6,810	(19,810)	(13,000)	538,490	6,556,670
Profit for the year	-	-	-	-	-	-	-	-	-	304,268	304,268
Other comprehensive income for the year	-	-	-	-	-	-	-	13,154	13,154	-	13,154
Total comprehensive income for the year	-	-	-	-	-	-	-	13,154	13,154	304,268	317,422
Dividends (Note 42)	-	-	-	-	-	-	-	-	-	(173,963)	(173,963)
Issuance of ordinary shares pursuant to exercise of DRP	144,491	-	-	-	-	-	-	-	-	-	144,491
Issuance of ordinary shares pursuant to exercise of ESOS	13	-	-	-	-	-	(6)	-	(6)	-	7
Transfer of share option reserve to retained profits upon expiry of share options	-	-	-	-	-	-	(543)	-	(543)	543	-
Transfer of share premium to share capital	198,449	(198,449)	-	-	-	-	-	-	-	-	-
Transfer of warrant reserve to retained profits	-	-	-	(3,633)	-	-	-	-	-	3,633	-
Transfer of capital redemption reserve redeemable cumulative preference shares to share capital	12,486	-	-	-	(12,486)	-	-	-	-	-	-
Transfer of capital reserve to share capital	17,838	-	(17,838)	-	-	-	-	-	-	-	-
At 31 December 2017	6,172,051	-	-	-	-	-	6,261	(6,656)	(395)	672,971	6,844,627
Effects of adopting MFRS 9 (Note 3(a))	-	-	-	-	-	-	-	-	-	(206,634)	(206,634)
Profit for the year	6,172,051	-	-	-	-	-	6,261	(6,656)	(395)	466,337	6,637,993
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	200,395	200,395
Total comprehensive income for the year	-	-	-	-	-	-	-	6,656	6,656	-	6,656
Dividends (Note 42)	-	-	-	-	-	-	-	6,656	6,656	200,395	207,051
Issuance of ordinary shares pursuant to exercise of DRP	243,952	-	-	-	-	-	-	-	-	(307,497)	(307,497)
Issuance of shares for acquisition of a subsidiary	266,099	-	-	-	-	-	-	-	-	-	243,952
At 31 December 2018	6,682,102	-	-	-	-	-	6,261	-	6,261	359,235	7,047,598

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

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

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

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

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2018

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash flows from operating activities				
Profit before taxation	853,573	550,732	275,902	431,925
Adjustments for:				
Depreciation of property, plant and equipment	8,615	11,008	1,804	8,225
Amortisation:				
- land use rights	161	161	-	-
- intangible assets	11,383	10,841	1,731	10,823
(Gain)/loss on disposal of property and equipment and land use rights	(316)	9	(318)	9
Loss on liquidation of subsidiaries	-	-	2,710	15,018
Gain on disposal of financial assets held-for sale	(2,384)	-	(2,384)	-
Net loss on sale of investments securities at FVOCI	33	-	-	-
Loss/(gain) on disposal of foreclosed properties	401	(2,095)	401	(2,095)
Allowance/(write back) for impairment of:				
- loans, financing and advances	174,919	598,611	19,167	606,382
- other receivables	45,944	42,597	50,074	652
- financing commitments, financial guarantees and other payables	(100,635)	-	(82,424)	-
- investments in subsidiaries	-	-	-	2
- investments at amortised cost	6	-	-	-
- asset held-for-sale	(4,359)	-	11,711	-
- financing to subsidiaries	-	-	4,588	34,420
- amount due from subsidiaries	-	-	8,222	4,686
- trade receivables	(8)	8	-	-
Accruals/(reversal) during the year	36,162	22,485	(45,222)	22,420
Interest/profit effective rate recognition:				
- loans, financing and advances	(92,836)	(24,215)	(9,898)	(24,215)
- Financial investments	(36,524)	(7,880)	-	(7,880)
- Financial investments at amortised cost	-	-	-	-
- Sukuk - MBSB SC Murabahah	234	(4)	-	(4)
- Sukuk Commodity Murabahah	-	-	(27,348)	(121,612)
Operating profit before working capital changes	894,369	1,202,258	208,716	978,756
Working capital changes:				
(Increase)/decrease in deposits with financial institutions with maturity of more than one month	(183,684)	328,675	(157,792)	410,838
Increase in statutory deposits with BNM	(1,028,826)	-	-	-
(Increase)/decrease in loans, financing and advances	(267,709)	(387,162)	495,291	(387,746)
Decrease/(increase) in financial assets held-for-sale	38,409	(38,409)	38,409	(38,409)
Decrease/(increase) in inventories	810	(41)	900	-
(Increase)/decrease in trade receivables	(258)	239	-	-
(Increase)/decrease in other receivables	(198,716)	(111,574)	374,310	(83,400)
(Decrease)/increase in deposits from customers, banks and other financial institutions	(1,920,965)	2,143,813	(790,770)	2,143,813
Increase in trade payables	15	23	-	-
Decrease in derivative assets	226	-	-	-
Increase in derivative liabilities	2	-	-	-
Increase/(decrease) in other payables	203,729	50,856	(798,327)	(269,223)
Increase in financing to subsidiaries	-	-	-	(59,057)

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

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2018

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash flows from operating activities (cont'd.)				
Cash (used in)/generated from operations	(2,462,598)	3,188,678	(629,263)	2,695,572
Tax paid	(325,688)	(92,291)	(178,476)	(86,333)
Zakat paid	(7,826)	(3,275)	(2,982)	(3,275)
Net cash (used in)/generated from operating activities	(2,796,112)	3,093,112	(810,721)	2,605,964
Cash flows from investing activities				
Arising from acquisition of MBSB Bank (Note 53)	181,076	-	(6,666,078)	-
Proceeds from financial assets held-for-sale	40,793	-	40,793	-
Purchase of property and equipment	(136,942)	(37,832)	(1,736)	(3,723)
Purchase of intangible assets	(101,473)	(10,059)	(11,509)	(10,042)
Proceeds from disposal of foreclosed properties	-	3,315	-	3,315
Proceeds from disposal of property and equipment and land use rights	2,097	24	516	24
Purchase of financial investments at FVOCI and available-for-sale	(1,109,523)	(786,129)	(38,118)	(786,129)
Proceeds from sale of financial investments at amortised cost	31,168	-	-	-
Proceeds from maturity of Sukuk Commodity Murabahah	-	-	-	452,903
Net cash used in investing activities	(1,092,804)	(830,681)	(6,676,132)	(343,652)
Cash flows from financing activities				
Repayment of bank borrowings	-	(575,275)	-	(575,275)
Repayment from recourse obligation on loans/financing sold	(102,649)	(182,008)	(63,159)	(182,008)
Repayment of Sukuk - MBSB SC Murabahah	(320,036)	(327,926)	-	(327,926)
Dividends paid on ordinary shares	(307,497)	(173,963)	(307,497)	(173,963)
Net proceeds from issuance of ordinary shares	243,952	144,504	243,952	144,504
Net cash used in financing activities	(486,230)	(1,114,668)	(126,704)	(1,114,668)
Net (decrease)/increase in cash and cash equivalents	(4,375,146)	1,147,763	(7,613,557)	1,147,644
Cash and cash equivalents at beginning of year	7,787,132	6,639,369	7,768,634	6,620,990
Cash and cash equivalents at end of year (Note 5(a))	3,411,986	7,787,132	155,077	7,768,634
Cash and cash equivalents is represented by:				
Cash and short-term funds	3,411,986	7,787,132	155,077	7,768,634
Cash and cash equivalents at end of year (Note 5(a))	3,411,986	7,787,132	155,077	7,768,634

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

1. Corporate information

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

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

The Company was principally engaged in investment holding, money market activities, provision of financing, advances and financial guarantees on a secured and unsecured basis, which includes Islamic financing, and other related financial services. On 7 February 2018, the Company acquired MBSB Bank Berhad (formerly known as Asian Finance Bank Berhad) ("the Bank"). On 2 April 2018, the Company had via the First Tranche Transfer, transferred all of its Shariah-compliant assets and liabilities to the Bank. The transfer was implemented through a members' scheme of arrangement pursuant to Section 366 of the Companies Act, 2016 by way of a Vesting Order dated 28 February 2018 from the High Court of Malaya.

Since the transfer on 2 April 2018, the Company was no longer involved in the money market activities and did not give out loans and advances. The Company continues to manage the remaining conventional loans and advances.

The principal activities of the subsidiaries are described in Note 15. There have been no significant changes in the nature of the principal activities of the subsidiaries during the financial year.

The consolidated financial statements comprise of the Company and its subsidiaries (together reported to as "Group"). These financial statements were approved by the Board of Directors on 19 April 2019.

2. Summary of significant accounting policies

Basis of preparation

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

The financial statements of the Group and of the Company have been prepared on a historical cost basis except as disclosed in the accounting policies below. The financial statements incorporate those activities relating to Islamic banking operations which have been undertaken by the Group and by the Company. Islamic banking operations refer generally to the acceptance of deposits and granting of financing under the principles of Shariah. Disclosures relating to the Islamic banking operations are disclosed in Note 52.

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.

(a) Foreign currency transactions

Foreign currency transactions are translated into the respective functional currencies of Group entities 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(b) Subsidiaries and basis of consolidation

(i) Subsidiaries

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

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

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

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

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

(iii) Transactions with non-controlling interests

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

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

(c) Intangible assets

(i) Goodwill

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(c) Intangible assets (cont'd.)

(ii) Other intangible assets

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

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

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

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

Software licences

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

Land use rights

Land use rights are distinct and separate from land ownership.

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

(d) 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 accumulated depreciation and 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.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. Summary of significant accounting policies (cont'd.)**(d) Property and equipment and depreciation (cont'd.)**

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

Building in progress	0%*
Buildings	2.5%
Building renovation	20%
Furniture and equipment	20%
Motor vehicles	20%
Data processing equipment	20%

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

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

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

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

(e) Employee benefits**(i) Short term benefits**

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

(ii) Defined contribution plans

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

(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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(f) Investment properties

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

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

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

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

(g) Inventories

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

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

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

(h) Provisions

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

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

(i) Cash and cash equivalents

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(j) Impairment of non-financial assets

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

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

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

Impairment losses are recognised in profit or loss.

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

(k) Financial instruments

Unless specifically disclosed, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

(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.

Current financial year

A financial asset 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(k) Financial instruments (cont'd.)

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

Previous financial year

Financial instrument was recognised initially, at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition or issue of the financial instrument.

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

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").

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

a) 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 solely payments of principal and interest/profit ("SPPI").

b) Financial assets measured at FVOCI

A debt instrument is measured at FVOCI only 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 achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

c) Financial assets measured at FVTPL

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(k) Financial instruments (cont'd.)

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

Current financial year (cont'd)

d) Business model assessment

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

- 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 business model (and the financial assets held within) is evaluated and reported to the Group's and the Company's key management personnel;
- (iii) The risks that affect the performance of the business model (and the financial assets held within) and, in particular, the way that those risks are managed; and
- (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)
- (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.

e) Assessment of whether contractual cash flows are 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 Company considers 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 considers:

- 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 loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(k) Financial instruments (cont'd.)

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

Current financial year (cont'd)

e) Assessment of whether contractual cash flows are SPPI (cont'd.)

The Group and the Company holds a portfolio of long-term fixed-rate loans for which the Group and the Company has the option to propose to revise the profit rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group and the Company has determined that the contractual cash flows of these financing are SPPI because the option varies the profit rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

This category comprises investment in equity that is not held for trading, and the Group and the Company 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.

Previous financial year

In the previous financial year, financial assets of the Group and the Company were classified and measured under MFRS 139 Financial Instruments: Recognition and Measurement as follows:

(a) Fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. It also includes derivative instruments where currently applicable only to forward foreign exchange contracts.

(b) Held-to-maturity

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

(c) Loans, financing and advances

Loans, financing and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are in the form of Ijarah, Qard and Bai'.

These contracts are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method. The contracts are stated at net of unearned income and any amounts written off less any impairment loss.

(d) Available-for-sale financial assets

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

All financial assets, except for those measured at fair value through profit or loss were subject to impairment assessment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. Summary of significant accounting policies (cont'd.)**(k) Financial instruments (cont'd.)****(ii) Classification and subsequent measurement (cont'd)****Financial liabilities****Current financial year**

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

(a) Fair value through profit or loss

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), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

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:

- (a) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;
- (b) 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
- (c) 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 interest 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.

(b) Amortised cost

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

Interest or 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(k) Financial instruments (cont'd.)

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

Financial liabilities

Previous financial year

The Group and the Company's holding in financial liabilities are recognised at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions.

The Group and the Company's financial liabilities

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

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

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

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

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

(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 presented together with other provisions.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. Summary of significant accounting policies (cont'd.)**(l) Impairment of financial assets**

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, Financial Instruments, the Group and the Company elected not to restate the comparatives.

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 is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

Current financial year*Measurement*

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income, contract assets and lease receivables. Expected credit losses are a probability-weighted estimate of credit losses.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss ("ECL"), except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balance and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables, contract assets and lease receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, 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 and the Company 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

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

Current financial year (cont'd.)

Measurement (cont'd)

LGD is the magnitude of the likely loss if there is a default. The Group and the Company estimates 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.

Recognition

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company is 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 not have a significant increase in credit risk since initial recognition or those 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 include 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 trigger applied by the Group and the Company on 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, negative 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 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 watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

The Group and the Company determines 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. Due dates are determined without considering any grace period that might be available to the borrower.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. Summary of significant accounting policies (cont'd.)**(l) Impairment of financial assets (cont'd.)****Current financial year (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 an instrument 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 determines 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 considers a financial asset to be in default when:

- 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; or
 - 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; or
 - 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 MBSB's credit risk grading framework.
- Restructured and rescheduled ("R&R") financing; or
- Customer/Issuer is declared bankrupt / wound up.

In assessing whether a borrower is in default, the Group and the Company considers 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; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

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

Current financial year (cont'd.)

Modified 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).

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

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 the expected future macroeconomic conditions. Forward looking adjustment incorporated within the ECL model is a combination of statistical analysis and expert judgments 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

Financial assets and related impairment allowances are normally written-down, either partially or in full, when there is no realistic prospect of recovery of the financial assets. Where financial assets are secured, the written-down is normally done after receipt of any proceeds from the realization of security.

However, the Group and the Company will continue to collect and monitor the written-down financial assets.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. Summary of significant accounting policies (cont'd.)**(l) Impairment of financial assets (cont'd.)****Previous financial year****(a) Assets carried at amortised cost**

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

For financing and advances, the Group and the Company first assess whether objective evidence of impairment exists individually for financing and advances that are individually significant, and individually or collectively for financing and advances that are not individually significant. If the Group and the Company determine that no objective evidence of impairment exists for an individually assessed financing and advances, whether significant or not, it includes the asset in a group of financing and advances with similar credit risk characteristics and collectively assess them for impairment.

The Group and the Company addressed impairment of financing and advances via either individually assessed allowance or collectively assessed allowance.

i) Individual impairment allowance

The Group and the Company determine the allowance appropriate for each individual significant impaired financing and advances on an individual basis. The allowances are established based primarily on estimates of the realisable value of the collateral to secure the financing and advances and are measured as the difference between the carrying amount of the financing and advances and the present value of the expected future cash flows discounted at original effective profit rate of the financing and advances. All other financing and advances that have been individually evaluated, but not considered to be individually impaired are assessed collectively for impairment.

ii) Collective impairment allowance

Financing and advances which are not individually significant or those that have been individually assessed with no evidence of impairment loss are grouped together for portfolio impairment assessment. These financing and advances are grouped within similar credit risk characteristics for collective assessment, whereby data from the financing portfolio are taken into consideration. When there are insufficient historical data available, past information from the industry are being used instead.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

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

Previous financial year (cont'd.)

(b) Assets classified as available-for-sale

The Group and the Company assesses at the end of the reporting period whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired.

For debt securities, the Group and the Company uses criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

(m) 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.

(n) Recognition of income

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

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

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

(ii) Fee income

Loan/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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

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.

(o) Income tax**(i) Current tax**

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

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

(ii) Deferred tax

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(o) Income tax (cont'd.)

(ii) Deferred tax (cont'd.)

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

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

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

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

(p) Zakat

This represents business zakat and is an obligatory amount payable by the Group and the Company 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.

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

(q) Earnings per ordinary shares

The Group and the Company presents the basic earnings per share data for its ordinary share ("EPS").

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.

(r) Fair value measurement

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(r) Fair value measurement (cont'd.)

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Company determines 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) MFRS, interpretation and amendments effective for annual periods on or after 1 January 2018

On 1 January 2018, the Group and the Company has adopted the following standards, interpretations and amendments to MFRS mandatory for annual financial periods beginning on or after 1 January 2018:

- Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)
- MFRS 9 Financial Instruments (2014)
- MFRS 15 Revenue from Contracts with Customers
- Classification to MFRS 15 Revenue from Contracts with Customers
- IC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Transfer of Investment Property (Amendments to MFRS 140)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(a) MFRS, interpretation and amendments effective for annual periods on or after 1 January 2018 (cont'd.)

The adoption of the new and revised MFRS and interpretation did not result in any significant impact on the financial statements of the Group and of the Company except for MFRS 9 Financial Instruments which is further discussed below.

Impact of application of MFRS 9 Financial Instruments

The Group and the Company has adopted MFRS 9 on 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. As permitted by MFRS 9, the Group and the Company elected not to restate comparative figures. Any adjustments to the carrying values of the financial assets and liabilities resulting from the adoption of MFRS 9 were recognised in retained earnings as at 1 January 2018.

The adoption of MFRS 9 has resulted in changes in the accounting policies for classification and measurement of financial assets and liabilities and impairment of financial assets.

The new impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income ("FVOCI"). Impairment is computed based on the exposure at default ("EAD"), which is based on the amounts the Group and the Company expect to be outstanding at the time of default, over the next 12 months, or the remaining lifetime ("Lifetime EAD").

At initial recognition, an impairment allowance is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ("Lifetime ECL"). Financial assets where 12 month ECL is recognised are in "Stage 1", financial assets which are considered to have a significant increase in credit risk are in "Stage 2" and financial assets for which there is objective evidence of impairment and are considered as credit impaired are in "Stage 3".

The estimation of ECL incorporates all available information relevant to the assessment, including information about past events, current conditions, and reasonable and supportable economic forecasts at reporting date. As a result, the recognition and measurement of impairment is intended to be more forward looking than under MFRS 139, and the resulting impairment change will tend to be more volatile.

For financing commitments and financial guarantee contracts, the loss allowance is recognised as other payables to the Group and to the Company.

Set out below are disclosures relating to the impact of adoption of MFRS 9.

Classification and measurement of financial instruments

The reclassification for financial assets to new categories under MFRS 9 from their previous categories has been "retired" with no changes to measurement basis:

- i) Those previously classified as available-for-sale are now classified as measured at FVOCI; and
- ii) Those previously classified as loans, financing and receivables are now classified as measured at amortised cost.

The business model for financial assets classified as FVOCI and as amortised cost are 'held to collect and sell' and 'held to collect' respectively. The instruments are held solely for collection of principal and profit and thus do not need to be classified as FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(a) MFRS, interpretation and amendments effective for annual periods on or after 1 January 2018 (cont'd.)

Impact of application of MFRS 9 Financial Instruments (cont'd.)

Reconciliation of new carrying amounts under MFRS 9 as at 1 January 2018

The following table reconciles the financial position carrying amounts under MFRS 139 as at 31 December 2017 with the carrying amounts under MFRS 9 as at 1 January 2018 as well as the impact of adoption of MFRS 9 on income tax assets and liabilities and accumulated losses as at 1 January 2018

Group	MFRS 139 carrying amounts as at 31 December 2017 RM'000	← Effects of adopting MFRS 9 →			MFRS 9 carrying amounts as at 1 January 2018 RM'000
		Reclassification RM'000	Remeasurement RM'000	Tax impact RM'000	
Statement of Financial Position					
Assets					
Cash and short-term funds	7,787,132	-	-	-	7,787,132
Deposits and placements with financial institutions	747,403	-	-	-	747,403
Financial investments at fair value through other comprehensive income ("FVOCI")	-	3,171,913	-	-	3,171,913
Financial investments available-for-sale	3,171,913	(3,171,913)	-	-	-
Loans, financing and advances	32,006,244	-	(71,793)	-	31,934,451
Financial assets held-for-sale ("AHS")	38,409	-	(3,208)	-	35,201
Trade receivables	295	-	-	-	295
Other receivables	218,413	-	-	-	218,413
Inventories	103,242	-	-	-	103,242
Property and equipment	168,504	-	-	-	168,504
Intangible assets	14,633	-	-	-	14,633
Land use rights	5,423	-	-	-	5,423
Deferred tax assets	31,359	-	-	70,406	101,765
Tax recoverable	517,177	-	-	-	517,177
Total assets	44,810,147	-	(75,001)	70,406	44,805,552

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(a) MFRS, interpretation and amendments effective for annual periods on or after 1 January 2018 (cont'd.)

Impact of application of MFRS 9 Financial Instruments (cont'd.)

Reconciliation of new carrying values under MFRS 9 as at 1 January 2018 (cont'd.)

Group (cont'd.) Statement of Financial Position (cont'd.)	← Effects of adopting MFRS 9 →				MFRS 9 carrying amounts as at 1 January 2018 RM'000
	MFRS 139 carrying amounts as at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	Tax impact RM'000	
Liabilities					
Deposits from customers	25,526,548	-	-	-	25,526,548
Deposits and placements of banks and other financial institutions	7,228,589	-	-	-	7,228,589
Trade payables	210	-	-	-	210
Other payables	377,327	-	196,886	-	574,213
Recourse obligation on loan/financing sold	2,238,167	-	-	-	2,238,167
Sukuk-MBSB Structured Covered ("SC") Murabahah	2,287,877	-	-	-	2,287,877
Provision for taxation and zakat	16,410	-	-	-	16,410
Deferred tax liabilities	10,156	-	-	-	10,156
Total liabilities	37,685,284	-	196,886	-	37,882,170
Equity					
Ordinary share capital	6,172,051	-	-	-	6,172,051
Reserves	(395)	-	-	-	(395)
Retained earnings	953,207	-	(271,887)	70,406	751,726
Total equity	7,124,863	-	(271,887)	70,406	6,923,382
Total liabilities and shareholders' equity	44,810,147	-	(75,001)	70,406	44,805,552

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(a) MFRS, interpretation and amendments effective for annual periods on or after 1 January 2018 (cont'd.)

Impact of application of MFRS 9 Financial Instruments (cont'd.)

Reconciliation of new carrying values under MFRS 9 as at 1 January 2018 (cont'd.)

Company Statement of Financial Position	MFRS 139 carrying amounts as at 31 December 2017 RM'000	← Effects of adopting MFRS 9 →			MFRS 9 carrying amounts as at 1 January 2018 RM'000
		Reclassification RM'000	Remeasurement RM'000	Tax impact RM'000	
Assets					
Cash and short-term funds	7,768,634	-	-	-	7,768,634
Deposits and placements with financial institutions"	51,368	-	-	-	51,368
Financial investments at fair value through other comprehensive income ("FVOCI")	-	3,171,913	-	-	3,171,913
Financial investment available-for-sale	3,171,913	(3,171,913)	-	-	-
Sukuk Commodity Murabahah	3,245,851	-	-	-	3,245,851
Loans, financing and advances	32,006,244	-	(71,793)	-	31,934,451
Financial assets held- for-sale ("AHS")	38,409	-	(3,208)	-	35,201
Other receivables	539,955	-	-	-	539,955
Investments in subsidiaries	7,397	-	-	-	7,397
Inventories	900	-	-	-	900
Property and equipment	34,096	-	-	-	34,096
Intangible assets	14,588	-	-	-	14,588
Deferred tax assets	21,187	-	-	65,253	86,440
Tax recoverable	517,177	-	-	-	517,177
Total assets	47,417,719	-	(75,001)	65,253	47,407,971
Liabilities					
Deposits from customers	25,526,548	-	-	-	25,526,548
Deposits and placements of banks and other financial institutions	7,228,589	-	-	-	7,228,589
Other payables	3,278,537	-	196,886	-	3,475,423
Recourse obligation on loan/financing sold	2,238,167	-	-	-	2,238,167
Sukuk-MBSB Structured Covered ("SC") Murabahah	2,287,877	-	-	-	2,287,877
Provision for taxation and zakat	13,374	-	-	-	13,374
Total liabilities	40,573,092	-	196,886	-	40,769,978
Equity					
Ordinary share capital	6,172,051	-	-	-	6,172,051
Reserves	(395)	-	-	-	(395)
Retained earnings	672,971	-	(271,887)	65,253	466,337
Total equity	6,844,627	-	(271,887)	65,253	6,637,993
Total liabilities and shareholders' equity	47,417,719	-	(75,001)	65,253	47,407,971

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

(b) Standards, 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:

MFRS, interpretations and amendments effective for annual 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 112, Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 119, Employee Benefits - Plan Amendment, Curtailment or Settlement
- 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

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

- MFRS 3, Business Combinations - *Definition of a Business*
- MFRS 101, Presentation of Financial Statements
- MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors- Definition of Material*

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

- MFRS 17, Insurance Contracts

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

- Amendments to MFRS 10, Consolidated Financial Statements
- MFRS 128, Investments in Associates and Joint Ventures

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

4. Significant accounting estimates and judgements

(a) Critical judgements made in applying accounting policies

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

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

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

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

(b) Key source of estimation uncertainty

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

Expected credit losses/Allowance for impairment of financing and advances and other receivables

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

- criteria that determines significant increase in credit risk; and
- development of ECL models which incorporates the macroeconomic variables.

The calculation of credit-impairment provisions also involves expert credit judgments, counterparty information from various sources including relationship managers and external market information.

The amount of impairment loss provided by the Group and the Company is disclosed in Notes 9, 10 and 26.

Goodwill from acquisition of MBSB Bank Berhad (formerly known as Asian Finance 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 cashflow projections, of which the first 3 years of cashflow projections were based on the 2018 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.

As disclosed in Notes 19 and 53, the goodwill has been recorded on a provisional basis as at 31 December 2018 pending the finalisation of the purchase price allocation in the next financial year.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(a) Cash and short-term funds:				
Cash at banks and on hand	262,346	265,196	72,070	250,492
Money at call and deposit placements maturing within one month	3,149,640	7,521,936	83,007	7,518,142
Total cash and short-term funds	3,411,986	7,787,132	155,077	7,768,634
(b) Deposits and placements with financial institutions with original maturity of more than one month Licensed Banks	931,087	747,403	154,347	51,368
Total cash and short-term funds and deposits and placements financial institutions	4,343,073	8,534,535	309,424	7,820,002

Short-term deposits are made for varying periods of between 1 day and 1 month depending on the immediate cash requirements of the Group and the Company and earn interest at the respective short-term deposit rates. The weighted average effective interest rate as at 31 December 2018 for the Group was 3.26% (2017: 3.42%) and the Company was 3.00% (2017: 3.42%) per annum, respectively. The average maturity as at 31 December 2018 for the Group and the Company was 14 days (2017: 11 days) and 2 days (2017: 11 days), respectively.

Deposits and placements with financial institutions are made with original maturity of more than one month and earn interest at the respective deposit rates. The weighted average effective interest rate as at 31 December 2018 for the Group was 3.65% (2017: 3.33%) and the Company was 3.65% (2017: 3.49%) per annum, respectively. The average maturity as at 31 December 2018 for the Group and the Company was 159 days (2017: 166 days) and 31 days (2017: 174 days), respectively.

The ECL/impairment allowance for cash and short-term funds and deposits and placements above is nil.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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.

The purpose of the derivative is to manage credit risk arising from foreign currency funding within the Group.

2018	← Group →		
	Contract/ Notional amount RM'000	Fair value Assets RM'000	Liabilities RM'000
Trading derivatives			
<u>Foreign exchange contracts:</u>			
Currency forward			
- Less than one year	5,842	67	(2)

7. Financial investments at FVOCI

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At fair value				
Money Market Instruments				
Malaysian Government Investment Issues	2,154,192	-	-	-
Debt securities:				
<u>In Malaysia</u>				
Private and Islamic debt securities	1,060,628	-	-	-
Government Guaranteed debt securities	1,882,285	-	-	-
	5,097,105	-	-	-

The instruments above are categorised as investment grade. The ECL/impairment allowance for the instruments above is nil due to the quality.

The maturity profile of financial assets at FVOCI is as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Within one year	570,671	-	-	-
One year to three years	1,118,238	-	-	-
Three years to five years	1,430,589	-	-	-
After five years	1,977,607	-	-	-
	5,097,105	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

8. Financial investments available-for-sale ("AFS")

	Group and Company	
	2018	2017
	RM'000	RM'000
At fair value		
Money Market Instruments		
Malaysian Government Investment Issues	-	1,111,691
Debt Securities:		
Private and Islamic debt securities	-	685,123
Government Guaranteed debt securities	-	1,375,099
	-	3,171,913

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

	Group and Company	
	2018	2017
	RM'000	RM'000
Within one year	-	205,198
One year to three years	-	960,405
Three years to five years	-	1,038,966
After five years	-	967,344
	-	3,171,913

9. Financial investments at amortised cost

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
At amortised cost				
Quoted securities:				
<u>In Malaysia</u>				
Islamic Medium Term Notes	20,356	-	-	-
Less: ECL/Impairment allowance				
- Stage 1	(6)	-	-	-
	20,350	-	-	-

There was no transfer of ECL/impairment allowance out of stage 1 during the year for the instruments above.

The Group has had realignment of business model for the securities acquired from MBSB Bank Berhad, and reclassified the instruments amounting to RM575,000,000 into financial assets at FVOCI on 11 December 2018. There was no transfer to the fair value reserve arising from the reclassification.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

10. Loans, financing and advances

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(i) Loans, financing and advances categorised by type are as follows:				
At amortised cost				
<i>Islamic:</i>				
Term financing:				
Property financing	4,340,081	2,372,817	-	2,372,817
Bridging financing	716,015	872,513	-	872,513
Hire purchase receivables	781,118	638,404	-	638,404
Auto financing	213,898	262,827	-	262,827
Personal financing	20,562,117	21,396,876	-	21,396,876
Other term financing	5,456,952	4,092,117	-	4,092,117
Trusts receipts	51,525	-	-	-
Staff financing	41,277	23,261	-	23,261
Revolving Credit	743,218	191,511	-	191,511
Others	138,473	-	-	-
<i>Conventional:</i>				
End finance:				
Normal housing programme	1,063,043	2,830,082	1,063,043	2,830,082
Low cost housing programme	3,367	15,596	3,367	15,596
Bridging financing	217,708	326,759	217,708	326,759
Auto financing	17,319	18,747	17,319	18,747
Other term financing	826,113	1,138,521	826,113	1,138,521
Staff financing	380	20,424	380	20,424
Revolving Credit	-	724	-	724
Gross loans, financing and advances	35,172,604	34,201,179	2,127,930	34,201,179
Less: Impairment allowance				
- Collective assessment allowance	-	(1,892,818)	-	(1,892,818)
- Individual assessment allowance	-	(302,117)	-	(302,117)
- Stage 1	(358,907)	-	(12,370)	-
- Stage 2	(550,621)	-	(94,982)	-
- Stage 3	(1,129,957)	-	(694,076)	-
Net loans, financing and advances	33,133,119	32,006,244	1,326,502	32,006,244

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

10. Loans, financing and advances (cont'd.)

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

	Group	
	2018	2017
	RM'000	RM'000
Islamic financing facility granted by:		
Cagamas Berhad - Recourse obligation on loans/financing sold (Note 27)	2,042,743	2,196,993
Sukuk - MBSB SC Murabahah* (Note 28(a))	2,584,123	2,891,912

* The Islamic personal financing charged to Sukuk - MBSB SC Murabahah which was vested to the Bank as part of transfer of assets and liabilities on 2 April 2018 relate to Islamic personal financing sold to a subsidiary, Jana Kapital Sdn Bhd ("JKSB"), amounting to:

Tranche	Selling date	Company	
		2018	2017
		RM'000	RM'000
		Selling price	Selling price
1	1 December 2013	-	570,637
2	1 November 2014	-	833,045
3	1 May 2015	-	1,232,642
4	1 October 2015	-	1,239,677
		-	3,876,001

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

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	2,196,230	1,028,128	715,288	1,028,128
One year to three years	1,792,653	1,655,580	22,541	1,655,580
Three years to five years	2,073,320	2,123,963	133,570	2,123,963
Over five years	29,110,401	29,393,508	1,256,531	29,393,508
	35,172,604	34,201,179	2,127,930	34,201,179

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

10. Loans, financing and advances (cont'd.)

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Purchase of residential properties	5,110,712	4,937,712	988,731	4,937,712
Purchase of non-residential properties	355,995	301,205	78,060	301,205
Personal use	20,579,030	21,417,605	-	21,417,605
Property development	4,539,065	4,031,832	423,262	4,031,832
Working capital	3,670,967	2,563,760	153,494	2,563,760
Purchase of transport vehicles	233,883	284,109	17,319	284,109
Others	682,952	664,956	467,064	664,956
	35,172,604	34,201,179	2,127,930	34,201,179

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Domestic business enterprises:				
- Small medium enterprises	2,722,949	2,540,062	301,772	2,540,062
- Government	240,301	-	-	-
- Non-bank financial institutions	536,644	-	-	-
- Others	5,562,252	4,850,648	791,348	4,850,648
Individuals	26,104,420	26,810,469	1,034,810	26,810,469
Foreign entities	6,038	-	-	-
	35,172,604	34,201,179	2,127,930	34,201,179

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

10. Loans, financing and advances (cont'd.)

(v) Loans, financing and advances categorised according by sectors are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Household sectors	26,110,523	26,807,169	1,034,811	26,807,169
Agriculture	240,002	60,582	3,325	60,582
Mining and quarrying	60,008	6,063	-	6,063
Manufacturing	382,878	197,151	120,869	197,151
Electricity, gas and water	233,110	22,931	-	22,931
Construction	6,116,961	5,617,256	721,714	5,617,256
Wholesale & retail trade and restaurants & hotels	168,282	51,550	3,625	51,550
Transport, storage and communication	124,403	82,440	2,283	82,440
Finance, insurance and business services	1,089,016	762,489	13,056	762,489
Education, health and others	647,421	593,548	228,247	593,548
	35,172,604	34,201,179	2,127,930	34,201,179

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Fixed rate:				
Personal financing	18,976,550	20,598,230	-	20,598,230
Auto finance	233,797	284,109	17,319	284,109
Mortgage and property Islamic	568,200	667,953	3,233	667,953
Bridging, structured and term loans and financing	1,185,663	1,291,123	262,717	1,291,123
Variable rate:				
Personal financing	1,602,482	819,376	-	819,376
Mortgage and property Islamic	4,859,937	4,570,963	1,063,557	4,570,963
Bridging, structured and term loans and financing	7,745,975	5,969,425	781,104	5,969,425
	35,172,604	34,201,179	2,127,930	34,201,179

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

10. Loans, financing and advances (cont'd.)

(vii) Loans, financing and advances categorised by geographical distribution are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Malaysia	35,172,470	34,201,179	2,127,930	34,201,179
United Kingdom	134	-	-	-
	35,172,604	34,201,179	2,127,930	34,201,179

(viii) Movement in gross loans, financing and advances

2018	Group			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
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	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 changes to the carrying amount	241,478	(47,915)	199,687	393,250
Write-offs	-	-	(578,985)	(578,985)
Transfer from / (to) assets held-for-sale (Note 10(x)/11)	1,041	(1,055)	110,196	110,182
	28,721,082	4,528,051	1,923,471	35,172,604

2018	Company			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
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	(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 / disbursed during the year	2,258,165	373,830	18,500	2,650,495
Financing repaid during the year	(2,264,570)	(840,860)	(138,093)	(3,243,523)
Other changes to the carrying amount	108,700	22,250	58,226	189,176
Write-offs	-	-	(12,676)	(12,676)
Transfer from / (to) assets held-for-sale (Note 10(x)/11)	365	(1,455)	(6,356)	(7,446)
	406,208	590,545	1,131,177	2,127,930

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

10. Loans, financing and advances (cont'd.)

(ix) Movement in the allowance for impairment for loans, financing and advances are as follows:

	Group and Company			
	2018	2017		
	RM'000	RM'000		
Collective Impairment				
Balance as at 1 January	1,892,818	2,809,131		
- effects of MFRS 9 adoption	(1,892,818)	-		
- as restated	-	2,809,131		
Impairment during the year (Note 39)	-	558,321		
Reclassification to assets held-for-sale (Note 11)	-	(1,474,634)		
Balance as at 31 December	-	1,892,818		
Individual Impairment				
Balance as at 1 January	302,117	282,005		
- effects of MFRS 9 adoption	(302,117)	-		
- as restated	-	282,005		
Impairment during the year (Note 39)	-	20,400		
Written-off	-	(288)		
Balance as at 31 December	-	302,117		
	Group			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
2018				
Impairment allowance 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 39)	(167,780)	(160,399)	500,261	172,082
Changes in the impairment allowance				
- 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 / disbursed during the year	138,500	89,073	42,504	270,077
Financing repaid 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 (Note 11)	701	920	106,298	107,919
ECL as at 31 December 2018	358,907	550,621	1,129,957	2,039,485

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

10. Loans, financing and advances (cont'd.)

(ix) Movement in the allowance for impairment for loans, financing and advances are as follows (cont'd.):

2018	Company			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Impairment allowance 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	(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 39)	(5,695)	(164,027)	189,308	19,586
Changes in the impairment allowance				
- 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 / disbursed during the year	66,471	45,562	15,918	127,951
Financing repaid 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 has been made post vesting of assets and liabilities. The adjustment of the ECL amounting to RM50,757,000 was subsequently transferred to MBSB Bank.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

10. Loans, financing and advances (cont'd.)

(x) Movements for impaired loans, financing and advances are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Balance as at 1 January	1,573,175	2,829,626	1,573,175	2,836,814
Acquisition of MBSB Bank	111,039	-	-	-
Assets vested to MBSB Bank	-	-	(735,137)	-
Classified as impaired during the year	899,111	757,166	584,168	749,978
Reclassified as non-impaired	(376,828)	(417,763)	(213,094)	(417,763)
Amount recovered	(106,598)	(85,696)	(58,903)	(85,696)
Amount written off	(286,624)	(288)	(12,676)	(288)
Reclassification from/(to) assets held-for-sale (Note 10(viii))	110,196	(1,509,870)	(6,356)	(1,509,870)
Balance as at 31 December	1,923,471	1,573,175	1,131,177	1,573,175
Collective assessment allowance	-	(2,121,500)	-	(2,121,500)
Individual assessment allowance	-	(251,226)	-	(251,226)
Stage 3 impairment allowance	(1,129,957)	-	(694,076)	-
Reclassification to assets held-for-sale	-	1,474,087	-	1,474,087
	(1,129,957)	(898,639)	(694,076)	(898,639)
Net impaired loans, advances and financing	793,514	674,536	437,101	674,536
Net impaired loans as a percentage of net loans, financing and advances	2.39%	2.11%	32.95%	2.11%
Gross impaired loans as a percentage of gross loans, financing and advances	5.47%	4.60%	53.16%	4.60%

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

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Purchase of residential properties	501,675	352,177	284,926	352,177
Purchase of non-residential properties	48,332	39,167	33,117	39,167
Personal use	156,264	471,700	-	471,700
Property development	600,444	409,295	333,350	409,295
Working capital	119,242	78,384	39,869	78,384
Purchase of transport vehicles	52,791	42,445	16,613	42,445
Others	444,723	180,007	423,302	180,007
	1,923,471	1,573,175	1,131,177	1,573,175

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

10. Loans, financing and advances (cont'd.)

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Domestic business enterprises:				
- Small medium enterprises	349,641	134,249	219,125	134,249
- Others	828,804	548,771	584,795	548,771
Individuals	745,026	890,155	327,257	890,155
	1,923,471	1,573,175	1,131,177	1,573,175

(xiii) Impaired loans, financing and advances by sector are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Household sector	745,023	890,153	327,256	890,153
Agriculture	154	-	-	-
Mining and quarrying	38,891	150	-	150
Manufacturing	1,070	7,428	753	7,428
Finance, insurance and business services	12,602	1,965	998	1,965
Construction	795,663	572,979	581,836	572,979
Wholesale & retail trade and restaurants & hotels	21,148	18,121	33	18,121
Transport, storage and communication	343	29	56	29
Education, health and others	308,577	82,350	220,245	82,350
	1,923,471	1,573,175	1,131,177	1,573,175

The credit risk of financial assets of the Group and the Company is mitigated by the collateral held against the financial assets and would reduce the extent of impairment allowance for the assets subject to impairment review. In this respect, the individual impairment allowance as at the reporting date would have been higher for the Group by approximately RM394,303,968 (2017: RM207,491,454) and for the Company by approximately RM304,838,741 (2017: RM207,491,454) without the mitigating effect of collateral held.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

11. Financial assets held-for-sale

Assets held-for-sale ("AHS") comprise of non-impaired and impaired loans, financing and advances in relation to end finance, Islamic property and personal financing, which have been identified for sale and for which a firm commitment has been received from an external party as at the end of financial year. The gross amounts are categorised according to their purpose as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Purchase of residential properties	-	367,759	-	367,759
Purchase of non-residential properties	-	36,183	-	36,183
Personal use	-	1,109,101	-	1,109,101
	-	1,513,043	-	1,513,043

The sale of financial assets was concluded on 28 December 2018.

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<u>Gross balance</u>				
Balance as at 1 January	1,513,043	-	1,513,043	-
Reclassification from loans, financing and advances	-	1,513,043	-	1,513,043
Vested to MBSB Bank	-	-	(1,155,396)	-
	1,513,043	1,513,043	357,647	1,513,043
Transfer (to) / from loans and financing (note 10 (viii))	(110,182)	-	7,446	-
Disposal during the year	(1,402,861)	-	(365,093)	-
Gross assets held-for-sale	-	1,513,043	-	1,513,043
<u>Less: impairment allowance</u>				
Balance as at 1 January	(1,474,634)	-	(1,474,634)	-
Reclassification from loans, financing and advances	-	(1,474,634)	-	(1,474,634)
Effects of MFRS 9 adoption	(3,208)	-	(3,208)	-
	(1,477,842)	(1,474,634)	(1,477,842)	(1,474,634)
Vested to MBSB Bank	-	-	1,137,050	-
Net impairment during the year (Note 39)	4,359	-	(11,708)	-
Transfer (to) / from loans and financing (note 10 (ix))	(107,919)	-	537	-
Disposal during the year	1,581,402	-	351,963	-
Total impairment allowance	-	(1,474,634)	-	(1,474,634)
Net assets held-for-sale	-	38,409	-	38,409

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

12. Trade receivables

	Group	
	2018 RM'000	2017 RM'000
Gross balance	25,395	25,137
Less: Allowance for impairment	(24,834)	(24,842)
Net balance	561	295
Movements in allowance for impairment are as follows:		
Balance as at 1 January	24,842	24,834
(Writeback)/made (Note 39)	(8)	8
Balance as at 31 December	24,834	24,842

Trade receivables are non-interest bearing and credit terms provided are generally on 7 to 30 days (2017: 7 to 30 days) term.

13. Other receivables

Other receivables consists of the following:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(i) Financing to subsidiaries	-	-	-	305,140
(ii) Other receivables	243,047	218,413	148,672	234,815
	243,047	218,413	148,672	539,955

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

13. Other receivables (cont'd.)

(i) Financing to subsidiaries

	Company	
	2018	2017
	RM'000	RM'000
Secured	-	250,336
Unsecured	-	236,003
	-	486,339
Less: Allowance for impairment	-	(181,199)
	-	305,140

Movements in the allowance for impairment are as follows:

	Company	
	2018	2017
	RM'000	RM'000
Balance as at 1 January	181,199	146,779
Charge for the year		
Secured	248	937
Unsecured	21,928	33,483
Vested to MBSB Bank	(203,375)	-
Balance as at 31 December	-	181,199

Details of the allowance for impairment are as follows:

	Company	
	2018	2017
	RM'000	RM'000
Secured	-	10,035
Unsecured	-	171,164
	-	181,199

The financing to subsidiaries were vested to MBSB Bank on 2 April 2018. The financing to subsidiaries are repayable on demand and certain financing to subsidiaries are secured against landed properties. The weighted average effective interest rates of financing to subsidiaries at the reporting date was 7.00% (2017: 6.75%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

13. Other receivables (cont'd.)

(ii) Other receivables

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Advances in respect of certain projects	463,009	416,848	-	-
Loan commitment fees	8,740	8,740	8,740	8,740
Amount due from subsidiaries	-	-	58,152	68,919
Foreclosed properties	133,505	135,405	133,505	135,405
Prepayments and deposits	11,915	72,417	8,633	71,655
Sundry receivables	132,987	45,891	41,116	40,847
Public Low Cost Housing Payment (PLCHP)	23,113	23,337	23,113	23,337
Deferred expenses due to issuance of Sukuk Commodity Murabahah	128	141	-	-
Deferred expenses due to issuance of Sukuk - MBSB SC Murabahah	2,470	2,733	-	2,733
	775,867	705,512	273,259	351,636
Less: Allowance for impairment	(532,820)	(487,099)	(124,587)	(116,821)
	243,047	218,413	148,672	234,815

Movements in allowance for impairment are as follows:

Balance as at 1 January	487,099	446,535	116,821	113,516
Charge/(reversal) for the year:				
Write back of impairment losses for foreclosed properties	(440)	(1,381)	(440)	(1,381)
Advances in respect of certain projects	46,161	41,945	-	-
Amount due from subsidiaries (Note 39)	-	-	8,222	4,686
Write off of amount due from subsidiary due to disposal	-	-	(16)	-
Balance as at 31 December	532,820	487,099	124,587	116,821

Details of allowance for impairment are as follows:

Advances in respect of certain projects	458,821	412,660	-	-
Loan commitment fees	8,740	8,740	8,740	8,740
Amount due from subsidiaries	-	-	54,777	46,571
Public Low Cost Housing Payment (PLCHP)	23,113	23,113	23,113	23,113
Sundry receivables	12,498	12,498	8,309	8,309
Foreclosed properties	29,648	30,088	29,648	30,088
	532,820	487,099	124,587	116,821

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% (2017: 10.50%) per annum.

The amount due from subsidiaries is unsecured, bears weighted average effective interest rate of 7.00% (2017: 6.75%) per annum and is repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

13. Other receivables (cont'd.)

The credit risk of other receivables of the Group and the Company are mitigated by the collateral held against the other receivables and would reduce the extent of impairment allowance for the assets subject to impairment review. In this respect, the individual impairment allowance as at the reporting date would have been higher for the Group and the Company by approximately RM103,854,000 (2017: RM105,316,000) 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 (2017: 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.

14. Statutory deposits with BNM

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.

15. Investments in subsidiaries

	Company	
	2018 RM'000	2017 RM'000
Unquoted shares at cost	4,858,765	102,443
Less: Accumulated impairment losses	(79,660)	(95,046)
Less: Write off of investments in subsidiaries due to disposal	(22,777)	-
	<hr/> 4,756,328	<hr/> 7,397

Movements in the cost of investments are as follows:

	Company	
	2018 RM'000	2017 RM'000
Balance as at 1 January	102,443	118,394
Disposal of subsidiaries	-	(15,951)
Acquisition of MBSB Bank Berhad (Note 53)	662,993	-
Net assets transferred to MBSB Bank Berhad (Note 53)	4,093,329	-
	<hr/> 4,858,765	<hr/> 102,443

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

15. Investments in subsidiaries (cont'd.)

Movements in the impairment losses are as follows:

	Company	
	2018 RM'000	2017 RM'000
Balance as at 1 January	95,046	96,063
Impairment during the year (Note 36)	-	2
Write off the impairment due to disposal	(15,386)	(1,019)
Balance as at 31 December	79,660	95,046

Details of the subsidiaries are as follows:

Name of subsidiaries	Effective interest held (%)		Principal activities
	2018	2017	
MBSB Bank Berhad* [@]	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	100	Hotel operations services
Idaman Usahamas Sdn. Bhd.	100	100	Property development
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
Ganesha Sdn. Bhd.	-	100	Liquidated
Home Approach Sdn. Bhd.	-	100	Liquidated

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

Dormant entity

[@] Arising from acquisition of MBSB Bank Berhad (formerly known as Asian Finance Bank Berhad)

All the above subsidiaries were incorporated in Malaysia except for MBBS which was incorporated in Singapore.

16. Investments in Joint venture

	Group	
	2018 RM'000	2017 RM'000
Unquoted share capital at cost	16,222	16,222
Less:		
Share of loss	(16,222)	(16,222)
	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

16. Investments in Joint venture (cont'd.)

MBSB Bank Berhad invested RM16,222,255 in participating shares of Safeena (L) Ltd, a 50% equity interest in a joint controlled entity with AmanahRaya Investment Bank Ltd. This 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 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 to be justified by the profits of Safeena (L) Ltd ("the Board").
- (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 shall 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.
- (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.

17. Inventories

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At cost:				
Hotel inventories	269	179	-	-
At net realisable value:				
Freehold land held for sale	102,163	103,063	-	900
	102,163	103,063	-	900
Total inventories	102,432	103,242	-	900

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

18. Property and equipment

Group	Freehold land RM'000	Building in progress RM'000	Buildings RM'000	Building renovation RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Data processing equipment RM'000	Work in progress RM'000	Total RM'000
Cost									
At 1 January 2018	6,217	107,195	103,718	31,338	31,816	832	36,598	-	317,714
Addition from acquisition of MBSB Bank Berhad	-	-	-	5,315	1,799	87	5,742	-	12,943
Additions	-	120,128	-	1,352	1,115	-	9,214	5,133	136,942
Reclassification	-	-	-	-	-	-	2,546	(2,546)	-
Disposals	-	-	(367)	-	(26)	(5)	(34)	-	(432)
At 31 December 2018	6,217	227,323	103,351	38,005	34,704	914	54,066	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
Addition from acquisition of MBSB Bank Berhad	-	-	-	5,315	1,730	86	4,870	-	12,001
Depreciation charge for the year (Note 36)	-	-	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
At 31 December 2018	371	-	57,896	37,372	33,643	913	39,405	-	169,600
Net book value									
At 31 December 2018	5,846	227,323	45,455	633	1,061	1	14,661	2,587	297,567

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

18. Property and equipment (cont'd.)

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

18. 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 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 (Note 53)	-	-	(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 36)	-	471	658	330	18	327	1,804
Disposals	-	(191)	-	(4)	-	(9)	(204)
Vested to MBSB Bank Berhad (Note 53)	-	-	(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

Company	Freehold land RM'000	Buildings RM'000	Building renovation RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Data processing equipment RM'000	Total RM'000
Cost							
At 1 January 2017	9,968	18,946	24,018	17,689	580	33,005	104,206
Additions	-	-	162	232	-	3,329	3,723
Disposals	-	-	(24)	(463)	-	(734)	(1,221)
At 31 December 2017	9,968	18,946	24,156	17,458	580	35,600	106,708
Accumulated depreciation							
At 1 January 2017:	-	2,962	18,269	14,665	402	29,277	65,575
Depreciation charge for the year (Note 36)	-	474	2,922	1,510	82	3,237	8,225
Disposals	-	-	(18)	(441)	-	(729)	(1,188)
Reversal	-	-	-	-	-	-	-
At 31 December 2017	-	3,436	21,173	15,734	484	31,785	72,612
Net book value							
At 31 December 2017	9,968	15,510	2,983	1,724	96	3,815	34,096

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

18. Property and equipment (cont'd.)

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Pending subdivision of titles	754	754	184	184

19. Intangible assets

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Provisional goodwill on consolidation (Note 53)	188,790	-	-	-

Software licences

Cost

At 1 January	88,099	78,040	87,641	77,599
Addition from acquisition of MBSB Bank Berhad	23,276	-	-	-
Additions	99,898	10,059	11,509	10,042
Vested to MBSB Bank Berhad (Note 53)	-	-	(99,150)	-
At 31 December	211,273	88,099	-	87,641

Accumulated depreciation and impairment losses

At 1 January	73,466	62,625	73,053	62,230
Addition from acquisition of MBSB Bank Berhad	21,701	-	-	-
Amortisation for the year (Note 36)	11,383	10,841	1,731	10,823
Vested to MBSB Bank Berhad (Note 53)	-	-	(74,784)	-
At 31 December	106,550	73,466	-	73,053

Net book value

At 31 December	104,723	14,633	-	14,588
----------------	---------	--------	---	--------

Total	293,513	14,633	-	14,588
--------------	----------------	---------------	----------	---------------

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

20. Investment properties

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At cost				
Freehold land				
Addition from acquisition of MBSB Bank Berhad	820	-	-	-
At 31 December	820	-	-	-

The value of investment properties of RM820,000 which is categorised under Level 3 fair value has been generally derived using the sales comparison approach.

21. Land use rights

	Group	
	2018 RM'000	2017 RM'000
Cost:		
At 1 January/31 December	8,428	8,428
Accumulated amortisation:		
At 1 January	3,005	2,844
Amortisation for the year (Note 36)	161	161
At 31 December	3,166	3,005
Net carrying amount	5,262	5,423
Amount to be amortised:		
Not later than one year	161	161
Later than one year but not later than five years	644	644
Later than five years	4,457	4,618
	5,262	5,423

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. Deferred tax (assets)/liabilities

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January	(21,203)	(18,685)	(21,187)	(18,710)
Addition from acquisition of MBSB Bank	(657)	-	-	-
Recognised in profit or loss (Note 40)	44,294	(2,518)	5,500	(2,477)
Recognised in profit or loss (OCI)	3,368	-	-	-
At 31 December	25,802	(21,203)	(15,687)	(21,187)
Presented, after appropriate offsetting, as follows:				
Deferred tax liabilities	60,120	10,156	-	-
Deferred tax assets	(34,318)	(31,359)	(15,687)	(21,187)
	25,802	(21,203)	(15,687)	(21,187)

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 adjustment arising from business combination RM'000	Total RM'000
At 1 January 2017	(26,733)	(1,380)	-	(28,113)
Recognised in profit or loss	(3,460)	214	-	(3,246)
At 1 January 2018	(30,193)	(1,166)	-	(31,359)
Effect of adoption of MFRS 9	(70,406)	-	-	(70,406)
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 31 December 2018	(33,831)	(500)	13	(34,318)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. Deferred tax (assets)/liabilities (cont'd.)

	Fair value adjustment arising from business combination RM'000	Accelerated capital allowances RM'000	Impairment allowances RM'000	Others RM'000	Total RM'000
Group (cont'd.)					
Deferred Tax Liabilities					
At 1 January 2017	5,026	5,977	-	(1,575)	9,428
Recognised in profit or loss	-	(837)	-	1,565	728
At 1 January 2018	5,026	5,140	-	(10)	10,156
Recognised in profit or loss	-	7,072	41,234	(1,710)	46,596
Recognised in profit or loss- OCI	3,368	-	-	-	3,368
At 31 December 2018	8,394	12,212	41,234	(1,720)	60,120

	Provision RM'000	Accelerated capital allowances RM'000	Total RM'000
Company			
Deferred Tax Assets			
At 1 January 2017	(23,307)	(1,380)	(24,687)
Recognised in profit or loss	(3,460)	213	(3,247)
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)
Reclassification to tax recoverable	65,253	-	65,253
Recognised in profit or loss	11,146	1,101	12,247
At 31 December 2018	(15,621)	(66)	(15,687)

	Accelerated capital allowances RM'000	Others RM'000	Total RM'000
Deferred Tax Liabilities			
At 1 January 2017	5,977	-	5,977
Recognised in profit or loss	(837)	1,607	770
At 1 January 2018	5,140	1,607	6,747
Recognised in profit or loss	(5,140)	(1,607)	(6,747)
At 31 December 2018	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. Deferred tax (assets)/liabilities (cont'd.)

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Unutilised tax losses	165,445	170,843	-	-
Unabsorbed capital allowances	49,722	46,079	-	-
Provision for doubtful debts	37,444	25,680	-	-
Others	6,995	10,099	4,082	3,527

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

23. Deposits from customers

(i) By type of deposit:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Fixed deposits	-	775,059	-	775,059
Demand deposits:				
<i>Tawarruq</i>	225,520	-	-	-
Savings deposits:				
<i>Tawarruq</i>	76,558	-	-	-
<i>Wadiah</i>	-	96,643	-	96,643
Commodity Murabahah Term Deposit:				
<i>Tawarruq</i>	23,907,371	24,092,392	-	24,092,392
	24,209,449	24,964,094	-	24,964,094
General investment deposits	-	562,454	-	562,454
	-	562,454	-	562,454
	24,209,449	25,526,548	-	25,526,548

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

23. Deposits from customers

(ii) By type of customers:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Government and statutory bodies	14,746,960	15,892,197	-	15,892,197
Business enterprises	6,371,297	6,828,664	-	6,828,664
Individuals	3,091,192	2,805,687	-	2,805,687
	24,209,449	25,526,548	-	25,526,548

(iii) Maturity of deposits from customers:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Due within six months	17,474,783	20,005,082	-	20,005,082
More than six months to one year	4,818,107	3,445,961	-	3,445,961
More than one year to three years	723,813	1,044,376	-	1,044,376
More than three years	1,192,746	1,031,129	-	1,031,129
	24,209,449	25,526,548	-	25,526,548

(iv) By type of contract:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Mudharabah	-	562,454	-	562,454
Tawarruq	24,209,449	24,092,392	-	24,092,392
Wadiah	-	96,643	-	96,643
Others	-	775,059	-	775,059
	24,209,449	25,526,548	-	25,526,548

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

24. Deposits and placements of banks and other financial institutions

(i) By type of deposit:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<u>Non-Mudharabah Funds:</u>				
Other financial institutions	8,578,851	7,228,589	-	7,228,589
	8,578,851	7,228,589	-	7,228,589

(ii) By type of contract:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Tawarruq	8,578,851	7,228,481	-	7,228,481
Wadiah	-	108	-	108
	8,578,851	7,228,589	-	7,228,589

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 (2017: 30 to 60) days.

26. Other payables

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Amount due to Jana Kapital Sdn. Bhd.	-	-	-	2,891,912
Amount due to MBSB Bank	-	-	98,666	-
Due to other subsidiaries	-	-	-	13,187
Al-Mudharabah security funds	123,401	112,629	-	112,629
Other provisions and accruals	105,447	69,272	23,349	68,573
Sundry creditors	278,232	161,595	80,560	158,405
ECL for commitments and contingencies	100,412	-	6,469	-
Deferred income	43,275	33,831	30,625	33,831
	650,767	377,327	239,669	3,278,537

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

26. Other payables (cont'd.)

ECL movement of commitments and contingencies are as follows:

2018	Group			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Allowance for impairment 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 39)	(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 / disbursed 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)
Allowance for impairment as at 31 December 2018	53,130	36,829	10,453	100,412
2018	Company			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Allowance for impairment 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 39)	(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/drawdown 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)
Allowance for impairment as at 31 December 2018	413	198	5,858	6,469

The amount due to subsidiary, JKSB, relates to the sale of a portfolio of PFI that does not meet the derecognition criteria prescribed under MFRS 9 as detailed in Note 4.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

27. Recourse obligation on loans/financing sold

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Repayments due within 12 months	593,853	477,918	-	477,918
Repayments due after 12 months	1,541,665	1,760,249	-	1,760,249
	2,135,518	2,238,167	-	2,238,167

Recourse obligation on loans/financing sold was vested to the Bank as part of transfer of assets and liabilities on 2 April 2018 (refer Note 53).

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

The recourse obligation on loans or financing sold facilities granted by Cagamas Berhad are secured on a portfolio of mortgage loan and financing amounting to RM2,042,743,000 (2017: RM2,196,993,000) as disclosed in Note 10.

28. Sukuk - MBSB Structured Covered ("SC") Murabahah and Sukuk Commodity Murabahah

(a) Sukuk - MBSB SC Murabahah

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Sukuk - MBSB SC Murabahah	1,968,075	2,287,877	-	2,287,877
Maturity of Sukuk - MBSB SC Murabahah:				
Within one year	308,864	514,909	-	514,909
More than one year	1,659,211	1,772,968	-	1,772,968
	1,968,075	2,287,877	-	2,287,877

Sukuk - MBSB SC Murabahah was vested to MBSB Bank Berhad as part of transfer of assets and liabilities on 2 April 2018 (refer Note 53).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

28. Sukuk - MBSB Structured Covered ("SC") Murabahah and Sukuk Commodity Murabahah (cont'd.)**(a) Sukuk - MBSB SC Murabahah (cont'd.)**

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

- (i) The Programme is available for issue within a period of 5 years from the first issuance date and is issued in tranches ("Tranche") from time to time, at the discretion of MBSB;
- (ii) Each Tranche will consist of multiple series of Sukuk with different maturities;
- (iii) Each Tranche will be backed by an identified pool of Financing Receivables ("Tranche Cover Assets") held by the Company's Special Purpose Vehicle ("SPV"), Jana Kapital Sdn. Bhd. ("JKSB"); JKSB who will issue an unconditional and irrevocable Covered Sukuk Guarantee to the holders of the Sukuk - MBSB SC Murabahah;
- (iv) Tranche Cover Assets will be pledged by JKSB as security for the Covered Sukuk Guarantee. These Tranche Cover Assets are assigned to the Sukuk Trustee for this purpose;
- (v) In the event of default as defined in the Principal Terms and Conditions, the Tranche Cover Assets will be liquidated by the Sukuk Trustee in favour of the holders of the Sukuk - MBSB SC Murabahah; and
- (vi) From time to time, additional Tranche Cover Assets will be purchased by JKSB in line with additional Tranches drawdown by MBSB.

As at the reporting date, the carrying amount of Financing Receivables identified to back the outstanding Sukuk MBSB SC-Murabahah amounted to RM2,584,123,000 (2017: RM2,891,912,000) as disclosed in Note 10.

(b) Sukuk Commodity Murabahah

	Company	
	2018 RM'000	2017 RM'000
Sukuk Commodity Murabahah	-	3,245,851

Sukuk Commodity Murabahah was vested to MBSB Bank Berhad as part of the transfer of assets and liabilities on 2 April 2018 (refer Note 53).

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

- (i) The Sukuk Commodity Murabahah will be issued in Tranches corresponding to each Tranche of Sukuk - MBSB SC Murabahah;
- (ii) The tenure of the Sukuk Commodity Murabahah will be equivalent to the tenure of each Tranche of the Sukuk - MBSB SC Murabahah plus an additional year;
- (iii) The profit rates of each Tranche of the Sukuk Commodity Murabahah will be equivalent to the profit rates of the corresponding Sukuk - MBSB SC Murabahah.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

28. Sukuk - MBSB Structured Covered ("SC") Murabahah and Sukuk Commodity Murabahah (cont'd.)

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

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

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

On 29 May 2015, the third drawdown of the Programme amounting to approximately RM900 million was made by the Company with an equivalent issuance by JKSB amounting to approximately RM1,510 million to the Company. The third Tranche is secured against Tranche Cover Assets amounting to RM1,232,642,000 sold to JKSB on 1 May 2015. The third Tranches of the Sukuk - MBSB SC Murabahah and the Sukuk Commodity Murabahah have a tenure of 9 and 10 years from their drawdown dates respectively and both instruments carry profit rates ranging from 4.30% to 5.20% per annum, payable semi-annually in arrears.

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

29. Share capital

	Number of Shares		Amount	
	2018 Units'000	2017 Units'000	2018 RM'000	2017 RM'000
Ordinary shares Issued and fully paid:				
At 1 January	5,924,425	5,798,774	6,172,051	5,798,774
Issued during the year:				
Issue of ordinary shares pursuant to DRP	239,168	125,644	243,952	144,491
Issuance of shares for acquisition of a subsidiary	225,508	-	266,099	-
Issue of ordinary shares pursuant to ESOS	-	7	-	13
Transfer of share premium to share capital	-	-	-	198,449
Transfer of capital redemption reserve redeemable cumulative preference shares to share capital	-	-	-	12,486
Transfer of capital reserve to share capital	-	-	-	17,838
At 31 December	6,389,101	5,924,425	6,682,102	6,172,051

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

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

The salient features of the ESOS are as follows:

- (i) Eligible persons are employees of the Group who are on the payroll of the Group other than a subsidiary which is dormant;
- (ii) The total number of shares to be issued under the ESOS shall not exceed, in aggregate, 10% of the issued share capital of the Company at any point of time during the tenure of the ESOS;
- (iii) The option price for each share shall be the average of the main market quotation of the shares of the Company in the daily official list issued by Bursa Malaysia Securities Berhad for the five trading days preceding the date of offer, or the par value of the shares of the Company of RM1, whichever is higher;
- (iv) The actual number of new shares which may be offered to an eligible employee shall be at the discretion of the Option Committee and, subject to any adjustments that may be made under Clause 15 of the by-laws, shall not be less than 100 shares but not more than the maximum allowable allocation and shall always be in multiples of 100 shares; and
- (v) An option granted under the ESOS shall be capable of being exercised by the grantee by notice in writing to the Company commencing from the date of the offer but before the expiry of five years from 12 August 2010 in respect of all or any part of the Company's shares comprised in the option, such part being in multiples of 100 shares. Any partial exercise of an option shall not preclude the grantee from exercising the option in respect of the balance of the Company's shares comprised in the option.
- (vi) No option shall be granted to a Director of the Company unless the specific grant of option and the related allotment of the Company's shares to the Executive Director shall have first been approved by the shareholders of the Company in an Annual General Meeting.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

29. Share capital (cont'd.)

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

- (vii) The persons to whom the options have been granted have no right to participate by virtue of the options in any share issue of any other company;
- (viii) In respect of the ESOS granted in 11.9.2010, 100% of the options granted are exercisable during the validity of the option provided that the employee has been in continuous service with the Group throughout the period;
- (ix) In respect of the ESOS granted in 9.3.2012, 100% of the options granted are exercisable during the validity of the option provided that the employee has been in continuous service with the Group throughout the period;
- (x) In respect of the ESOS granted in 15.11.2012, 100% of the options granted are exercisable during the validity of the option provided that the employee has been in continuous service with the Group throughout the period;
- (xi) In respect of the ESOS granted in 9.3.2014, 100% of the options granted are exercisable during the validity of the option provided that the employee has been in continuous service with the Group throughout the period; and
- (xii) All new ordinary shares issued upon exercise of the options granted under the ESOS will rank *pari passu* in all respects with the existing ordinary shares of the Company other than as may be specified in a resolution approving the distribution of dividends prior to their exercise dates.

Movement of ESOS during the financial year

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

	Group			
	2018		2017	
	No.'000	WAEP (RM)	No.'000	WAEP (RM)
Outstanding at 1 January	25,910	-	28,166	-
- Exercised	-	-	(7)	1.02
- Lapsed	(809)	1.46	(2,249)	1.48
Outstanding at 31 December	25,101	1.46	25,910	1.44
Exercisable at 31 December	25,101	1.46	25,910	1.44

- The weighted average fair value of options during the financial year was RM0.31 (2017: RM0.31).
- The weighted average exercise price for options outstanding at the end of the year was RM1.60 (2017: RM1.57). The weighted average remaining contractual life for these options is 1.61 years (2017: 2.60 years).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

29. Share capital (cont'd.)

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

ESOS exercised during the financial year

The exercise of the ESOS during the financial year resulted in the issuance of nil (2017: 7,000) ordinary shares.

Fair value of ESOS granted

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

The following table lists the inputs to the model used:

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

30. Other reserves

Group	Capital Reserve RM'000 Note (a)	Share Option Reserve RM'000 Note (b)	Warrants Reserve RM'000 Note (c)	Capital Redemption Reserve - Redeemable Cumulative Preference Shares RM'000 Note (d)	Fair value Reserve RM'000 Note (e)	Total RM'000
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
At 1 January 2017	17,838	6,810	3,633	12,486	(19,810)	20,957
Issue of ordinary shares pursuant to ESOS	-	(6)	-	-	-	(6)
Transfer of share option reserve to retained profits upon lapsed of share options	-	(543)	-	-	-	(543)
Other comprehensive income for the year	-	-	-	-	13,154	13,154
Transfer of warrant reserve to retained profits upon expiry of warrants	-	-	(3,633)	-	-	(3,633)
Transfer of capital redemption reserve redeemable cumulative preference shares to share capital	-	-	-	(12,486)	-	(12,486)
Transfer of capital reserve to share capital	(17,838)	-	-	-	-	(17,838)
At 31 December 2017	-	6,261	-	-	(6,656)	(395)
Company						
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
At 1 January 2017	17,838	6,810	3,633	12,486	(19,810)	20,957
Issue of ordinary shares pursuant to ESOS	-	(6)	-	-	-	(6)
Transfer of share option reserve to retained profits upon lapsed of share options	-	(543)	-	-	-	(543)
Other comprehensive income for the year	-	-	-	-	13,154	13,154
Transfer of warrant reserve to retained profits upon expiry of warrants	-	-	(3,633)	-	-	(3,633)
Transfer of capital redemption reserve redeemable cumulative preference shares to share capital	-	-	-	(12,486)	-	(12,486)
Transfer of capital reserve to share capital	(17,838)	-	-	-	-	(17,838)
At 31 December 2017	-	6,261	-	-	(6,656)	(395)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

30. Other reserves (cont'd.)

- (a) The capital reserve arose out of the transfer of the reserves of Malaya Borneo Building Society Limited as at 29 February 1972 to the Company on 1 March 1972 via a Scheme of Arrangement and is not distributable as cash dividends.
- (b) The share option reserve relates to the equity-settled share options granted to employees. This reserve is made up of the cumulative value of services received from employees recorded on grant of share options and is transferred to retained earnings upon expiry of the share options.
- (c) The warrants reserve represents the cumulative fair value of the warrants yet to be exercised. The warrants have expired on 31 December 2017.
- (d) The capital redemption reserve arose out of the redemption of redeemable cumulative preference shares of the Company and is not distributable as cash dividends.
- (e) 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. In prior year, the fair value reserve was in relation to financial investments available-for-sale.

31. Revenue

Revenue of the Company comprises interest income, fee and commission income, other income and financing 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.

32. Income derived from investment of general investment deposits and Islamic capital funds

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Financing	2,296,125	2,145,098	518,653	2,169,840
Income from securities	31,696	-	-	-
Profit income from Sukuk Commodity Murabahah	-	-	27,348	121,612
Financial investments at FVOCI	143,335	114,160	30,096	114,160
Deposits with financial institutions	133,531	163,156	33,247	138,218
	2,604,687	2,422,414	609,344	2,543,830

33. Interest income

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest income from:				
- Loans, financing and advances	181,908	317,584	139,642	280,329
- Deposits and placements with banks and other financial institutions	34,888	110,237	34,888	110,237
	216,796	427,821	174,530	390,566

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

34. Interest expense

	Group and Company	
	2018	2017
	RM'000	RM'000
Deposits from customers, banks and other financial institutions	21,396	151,306
Others	436	993
	21,832	152,299

35. Net other income

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Rental income	175	182	11	18
Revenue from hotel operations	6,923	6,914	-	-
Loan related fees	23,994	14,578	26,474	14,578
Insurance commission	11,182	5,149	2,424	5,149
Legal notice fees	-	49	-	49
Sundry income	11,674	51,626	19,377	51,486
Gain/(loss) from disposal of:				
Property and equipment and land use rights	316	(9)	318	(9)
Foreclosed properties	(401)	2,095	(401)	2,095
Inventories	100	-	100	-
Subsidiary*	-	-	(2,710)	(84)
	53,963	80,584	45,593	73,282

* The loss from disposal of subsidiary during the year was from the disposal of Home Approach Sdn. Bhd.

36. Other operating expenses

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Personnel expenses (Note 37)	227,706	164,590	44,439	160,198
Establishment related expenses	52,566	43,373	9,701	39,418
Promotion and marketing related expenses	7,803	6,085	1,764	5,965
General administrative expenses	80,380	46,406	29,018	42,034
Intercompany charges	-	-	23,523	(3,655)
Commission fees	37,825	29,346	12,472	29,347
	406,280	289,800	120,917	273,307

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

36. Other operating expenses (cont'd.)

Included in other operating expenses are the following:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Parent auditors' remuneration:				
- Audit	490	667	410	574
- Regulated related services	5	5	5	5
- Other services	9,159	518	5,781	518
Other auditors' remuneration:				
- Audit	1,312	-	-	-
- Other services	308	-	-	-
Professional fees	101	8,957	-	8,957
Depreciation:				
- property, plant and equipment (Note 18)	8,615	11,008	1,804	8,225
Amortisation:				
- intangible assets (Note 19)	11,383	10,841	1,731	10,823
- land use rights (Note 21)	161	161	-	-
Directors' remuneration (Note 38)	3,296	2,576	1,399	2,576
Rental of buildings	8,516	5,987	1,768	6,886

37. Personnel expenses

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Wages and salaries	171,582	128,211	31,959	124,564
Social security costs	1,377	990	290	952
Pension costs - Employees Provident Fund	28,077	20,701	5,348	20,390
Other staff related expenses	22,495	11,746	5,101	11,350
Directors fees	3,759	2,707	1,619	2,707
Shariah Committee remuneration	416	235	122	235
	227,706	164,590	44,439	160,198

38. Directors' remuneration

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Directors of the Company				
Non-Executive:				
Fees	1,876	1,363	841	1,363
Other emoluments	1,420	1,213	558	1,213
	3,296	2,576	1,399	2,576

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

38. 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	
	2018	2017	2018	2017
Non-executive directors:				
RM1,000 - RM50,000	7	-	6	-
RM50,001 - RM100,000	-	1	-	1
RM100,001 - RM150,000	1	-	1	-
RM150,001 - RM200,000	1	3	-	3
RM200,001 - RM250,000	3	3	2	3
RM250,001 - RM300,000	2	2	1	2
RM300,001 - RM350,000	2	1	1	1
RM350,001 - RM400,000	-	-	-	-
RM400,001 - RM450,000	-	1	-	1
RM450,001 - RM500,000	2	-	-	-

Details of the directors' remuneration of each director during the financial year ended 31 December 2018 are as follows:

Group
31 December 2018

Directors	Director Fees RM'000	Allowance RM'000	Total 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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

38. Directors' remuneration (cont'd.)

Details of the directors' remuneration of each director during the financial year ended 31 December 2018 are as follows (cont'd.):

Company
31 December 2018

	Director Fees RM'000	Allowance RM'000	Total 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.

Group and Company
31 December 2017

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

39. Impairment allowance

2018	Group			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Financial investments at amortised cost	6	-	-	6
Loans, financing and advances (Note 10(ix))	(167,780)	(160,399)	500,261	172,082
Financial investments held-for-sale	694	1,206	(6,259)	(4,359)
Trade receivables (Note 12)	-	-	(8)	(8)
Other receivables	-	-	45,944	45,944
Other payables	-	-	1,570	1,570
Financing commitments and financial guarantees (Note 26)	(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
2017				Group RM'000
Allowance for impairment on loans and financing (Note 10(ix)):				
- Individual assessment				20,400
- Collective assesment				558,321
Allowance for impairment on other assets:				
- Trade receivables (Note 12)				8
- Other receivables				42,597
Impaired financing and advances:				
- Write off				44,667
- Recovered				(24,777)
				641,216

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

39. Impairment allowance (cont'd.)

2018	Company			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Loans, financing and advances (Note 10(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 (Note 13)	-	-	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
2017				Company RM'000
Allowance for impairment on loans and financing (Note 10(ix)):				
- Individual assessment				20,400
- Collective assesment				558,321
Allowance for impairment on other assets:				
- Financing to subsidiaries (Note 13)				34,420
- Amount due from subsidiaries (Note 13)				4,686
- Other receivables				652
- Investments in subsidiaries (Note 15)				2
Impaired financing and advances:				
- Write off				44,667
- Recovered				(17,006)
				646,142

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

40. Taxation

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Malaysian income tax:				
Current income tax	156,209	128,222	72,509	122,211
Over provision in prior years	(2,330)	(3,969)	(2,502)	(3,948)
	153,879	124,253	70,007	118,263
Deferred tax (Note 22):				
Under provision in prior years	2,092	4,690	2,090	4,690
Relating to origination and reversal of temporary differences	42,202	(7,208)	3,410	(7,167)
	44,294	(2,518)	5,500	(2,477)
Total income tax expense for the year	198,173	121,735	75,507	115,786

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year.

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

Group	2018 RM'000	2017 RM'000
Profit before taxation and zakat	853,573	550,732
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	204,858	132,176
Effect of income not subject to tax	(47,881)	(55,139)
Effect of expenses not deductible for tax purposes	39,851	49,616
Effect of utilisation of previously unrecognised tax losses and unabsorbed capital allowances	-	(54)
Deferred tax assets not recognised	1,657	(5,585)
Over provision of income tax in prior years	(2,330)	(3,969)
Under provision of deferred tax in prior years	2,092	4,690
Reversal of deferred tax liabilities	(74)	-
Tax expense for the year	198,173	121,735

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

40. Taxation (cont'd.)

Company	2018 RM'000	2017 RM'000
Profit before taxation and zakat	275,902	431,925
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	66,216	103,662
Effect of income not subject to tax	671	22
Effect of expenses not deductible for tax purposes	8,898	11,225
Deferred tax assets not recognised	134	135
Over provision of income tax in prior years	(2,502)	(3,948)
Under provision of deferred tax in prior years	2,090	4,690
Tax expense for the year	75,507	115,786

41. 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.

	2018	2017
Net profit for the year (RM'000)	642,400	417,126
Weighted average number of ordinary shares in issue ('000)	6,226,017	5,872,769
Basic earnings per share (sen)	10.32	7.10

(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

	2018	2017
Net profit for the year (RM'000)	642,400	417,126
Weighted average number of ordinary shares in issue ('000)	6,226,017	5,872,769
Adjusted for assumed conversion of ESOS ('000)	-	308
Adjusted weighted average number of ordinary shares in issue ('000)	6,226,017	5,873,077
Diluted earning per share (sen)	10.32	7.10

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

42. Dividends

	Group and Company	
	2018	2017
	RM'000	RM'000
Recognised during the financial year:		
Final dividend on ordinary shares:		
In respect of financial year ended 31 December 2017/2016:		
- Single-tier final dividend of 5.0 sen per share	307,497	-
- Single-tier final dividend of 3.0 sen per share	-	173,963
	307,497	173,963
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	319,455	-
- Single-tier final dividend of 5.0 sen per share	-	296,221
	319,455	296,221

On 8 April 2019, the Company announced the proposed single-tier final dividend of 5.0 sen net per ordinary share in respect of the financial year ended 31 December 2018. Based on the number of shares in issue of 6,389,101,298 ordinary shares as at 31 December 2018, the dividend payable would be RM319,455,065.

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 2019.

MBSB Dividend Reinvestment Plan

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

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

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

The 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

42. Dividends (cont'd.)**MBSB Dividend Reinvestment Plan (cont'd.)**

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

- (a) elect to exercise the option to reinvest and thereby reinvest the entire electable portion (or a part thereof) at the issue price of the new MBSB shares ("DRP Price") and to receive cash for the remaining portion of the dividend (in the event that only part of the electable portion is reinvested); or
- (b) elect not to exercise the option to reinvest and thereby receive their entire dividend entitlement wholly in cash.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

43. Capital adequacy

	Group 2018 RM'000	Company 2018 RM'000
Common Equity Tier 1 Capital		
Ordinary share capital	6,682,102	6,682,102
Retained earnings	1,086,629	359,234
Other reserve	16,873	6,261
Regulatory reserve	-	-
	<hr/> 7,785,604	<hr/> 7,047,597
Less : Common Equity Tier 1 regulatory adjustments		
Goodwill	(188,790)	-
Deferred tax assets	-	(15,687)
Cumulative gains of		
Investment securities at FVOCI/AFS financial instruments	(8,134)	-
Regulatory reserve attributable to financing	-	-
Other intangible assets	(104,723)	-
	<hr/> 7,483,957	<hr/> 7,031,910
Tier 1 Capital		
Additional Tier 1 capital instruments	-	-
Less: Tier 1 regulatory adjustments	-	-
	<hr/> 7,483,957	<hr/> 7,031,910
Tier II Capital		
Impairment allowance	415,057	87,137
Regulatory reserve	-	-
	<hr/> 415,057	<hr/> 87,137
Total Tier II capital	415,057	87,137
	<hr/> 7,899,014	<hr/> 7,119,047
Total capital base	7,899,014	7,119,047

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

43. Capital adequacy (cont'd.)

Breakdown of risk weighted assets in various categories of risk weights are as follows:

	Group 2018 RM'000	Company 2018 RM'000
<u>Total risk weighted assets ("RWA")</u>		
- Credit risk	33,204,567	6,970,930
- Market risk	2,136	-
- Operational risk	2,268,538	1,649,011
<hr/> Total RWA	<hr/> 35,475,241	<hr/> 8,619,941
 <u>Capital ratios</u>		
Common equity tier 1 capital	21.096%	81.577%
Tier 1 capital	21.096%	81.577%
Total capital ratio	22.266%	82.588%

The capital ratios after the proposed single-tier final dividend of 5.0% of total number of shares in respect of financial year ended 31 December 2018 are as follows:

<u>Capital ratios (after proposed dividend)</u>		
CET I capital	20.196%	77.871%
Tier I capital	20.196%	77.871%
Total capital ratio	21.366%	78.882%

The capital adequacy ratios have been computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel II – Risk Weighted Assets) since 7 February 2018 upon completion of the acquisition of the Banking subsidiary as disclosed in Notes 1 and 53. The total risk weighted assets are computed based on Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

44. 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 63.77% (2017: 65.56%) as at 31 December 2018. 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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Expenses				
Profit expense paid on Sukuk to EPF	56,730	57,477	14,110	57,477
Profit expense paid on fixed deposit to EPF	3,847	-	-	-
Rental expense	288	286	72	286
Balances				
Sukuk MBSB-SC Murabahah	1,121,242	1,126,387	-	1,126,387
Accrued profit on sukuk due to EPF	7,824	-	-	-
Fixed deposit by EPF	900,000	-	-	-
Accrued profit on fixed deposit due to EPF	1,025	-	-	-
Rental deposit (Note 13)	97	97	97	97

(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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Income				
Interest/profit from deposit placements	24,919	35,530	1,742	10,482
Expenses				
Interest expense to depositors	(2,478)	2,097	-	2,097
Interest expenses for bank borrowing	-	240	-	240
Interest expenses for recourse obligation on loans/financing sold	-	20,744	-	20,744
Balances				
Cash and short-term funds	19,215	-	-	-
Deposits and placements with financial institutions	32	749,944	-	50,274
Deposits from customers	-	7,377	-	7,377

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

44. Significant related party transactions/balances (cont'd.)

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

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

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

For the financial year ended 31 December 2018, the aggregate amount of the Group and Company's significant balances with other government-related entities other than the RHB Banking Group of companies are as disclosed below:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Income/(expenses)				
Profit from financing	24,656	-	-	-
Profit/interest to depositors	(8,406)	34,791	(1,682)	34,791
Balances				
Financing	303,695	-	-	-
Deposits from customers	154,019	868,544	-	868,544

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

	Company	
	2018 RM'000	2017 RM'000
Income/(expenses)		
Profit/interest charged on loans, advances and financing	68,863	63,189
Rental paid	(225)	(899)
Balances		
Financing to related companies	-	546,633
Amount due from subsidiaries	58,152	68,919
Amount due to subsidiaries	-	13,187
Amount due to a subsidiary, Jana Kapital Sdn. Bhd. ("JKSB")	-	2,891,912

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

44. Significant related party transactions/balances (cont'd.)

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Short-term employee benefits	9,457	6,982	5,267	6,982
Pension costs: EPF	933	719	617	719
	10,390	7,701	5,884	7,701

Included in the total key management personnel are:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Directors' remuneration comprising fees and allowances (Note 38)	3,296	2,576	1,399	2,576
Chief Executive Officer's remuneration comprising salary, bonus, allowances and other emoluments	5,176	3,553	3,434	3,553

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Expense				
Interest cost incurred on savings and deposits	(78)	(55)	(1)	(55)
Balance				
Amount due to in respect of savings and deposits	2,851	1,381	-	1,381

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	
	2018 '000	2017 '000	2018 '000	2017 '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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

45. Credit exposures arising from transactions with connected parties

	Group 2018 RM'000
Outstanding credit exposures with connected parties	884,899
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	2.11%
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	0.79%
	Company 2018 RM'000
Outstanding credit exposures with connected parties	61,523
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	2.84%
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

46. Commitments and contingencies

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(i) Operational Commitments				
Loan and financing commitments not yet recognised in the financial statements:				
End financing	27,471	49,857	27,471	49,857
Islamic properties	199,420	153,279	-	153,279
Islamic personal	6	1,329	-	1,329
Bridging, structured and term loans and financing	5,430,938	6,405,576	-	6,405,576
Forward forex	5,842	-	-	-
Financial guarantees	314,193	650,291	7,832	650,291
Performance guarantees	138,852	93,441	2,939	93,441
	6,116,722	7,353,773	38,242	7,353,773
Approved and contracted for property development	421,528	421,528	1,667	1,667
	421,528	421,528	1,667	1,667
	6,538,250	7,775,301	39,909	7,355,440
(ii) Capital Commitments				
Property and equipment:				
Approved and contracted for	60,203	132,043	-	-
Approved but not contracted for	-	-	-	20,186
	60,203	132,043	-	20,186

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

46. Commitments and contingencies (cont'd.)

(iii) Lease Commitments

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

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

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Future minimum rental payments:				
Not later than 1 year	7,071	5,216	-	6,114
Later than 1 year but less than 5 years	3,422	1,389	-	4,982
Later than 5 years	-	-	-	4,491
	10,493	6,605	-	15,587

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

47. 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 for an alleged breach of facility agreement.

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

The High Court fixed the matter for full trial on 11, 12 and 15 September 2017. The parties filed Striking-Out Applications on 18 July 2017. On 8 September 2017, the Court found 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 Court fixed case management on 22 April 2019 as the court needed time to reconstruct and arrange the documents for the matter.

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

31 December 2018

47. Contingent liabilities (Unsecured) (cont'd.)

- (ii) 88 Legacy Sdn Bhd (represented by) Malaysia Building Society Berhad v Pentadbir Tanah Daerah Klang

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. This matter has 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 had referred the matter with respect to Lot 31632 PM 416 to the High Court of Shah Alam on 14 November 2018 and the case management was fixed on 14 December 2018.

The Court fixed the next case management on 29 January 2019 to deliberate on the status of the other two Lots i.e. Lot 31633 PM 417 and Lot 31634 PM 418 which were jointly heard at JKPTG but has yet to be referred to the court. The Company's solicitors have applied to the Court to consolidate all three (3) matters in order to be heard together.

The matter has been fixed for case management on 29 April 2019 for the Company's solicitors to file consolidation application and valuation report for all 3 cases.

48. Financial risk management

The Group has exposure to one or more of the following risks:

- (i) 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, commodities prices and their associated volatility;
- (ii) 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;
- (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 its 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;
- (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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

(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.

(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 organization 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.

(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 minimizes 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

(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 of the Group and the Company. In line with best practices, the Board determines the risk policy objectives for the Group and the Company, and assumes responsibility for the supervision of risk management.

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

- (i) 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.
- (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 ie 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, 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

(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.

(e) Credit risk mitigation

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

(f) Concentration risk

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

Credit risk

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

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

(i) Maximum exposure to credit risk

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Financial Assets:				
Loans, financing and advances:				
Without taking collateral into account:				
End financing and Islamic property	5,428,578	5,238,917	1,066,790	5,238,917
Personal financing	20,579,029	21,417,604	-	21,417,604
Bridging, structured and term loans and financing	8,931,114	7,260,549	1,043,821	7,260,549
Auto finance	233,883	284,109	17,319	284,109
	35,172,604	34,201,179	2,127,930	34,201,179
Net of Impairment:				
End finance and Islamic property	4,633,442	4,405,641	700,422	4,405,641
Personal financing	20,194,839	20,610,480	-	20,610,480
Bridging, structured and term loans and financing	8,140,599	6,782,192	625,527	6,782,192
Auto finance	164,239	207,931	553	207,931
	33,133,119	32,006,244	1,326,502	32,006,244
Deposits and placements with Financial Institutions and Bank Balances:				
Cash and short-term funds	3,411,986	7,787,132	155,077	7,768,634
Deposits and placements with financial institutions	931,087	747,403	154,347	51,368
	4,343,073	8,534,535	309,424	7,820,002

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Other Financial Assets:				
Financing to subsidiaries	-	-	-	305,140
Financial investments available-for-sale	-	3,171,913	-	3,171,913
Financial investments at FVOCI	5,097,105	-	-	-
Financial investments at amortised cost	20,350	-	-	-
Trade receivables	561	295	-	-
Other receivables*	127,275	42,060	36,182	57,843
Statutory deposits with Bank Negara Malaysia	1,053,000	-	-	-
Derivative financial assets	67	-	-	-
Sukuk Commodity Murabahah	-	-	-	3,245,851
Financial investments held-for-sale	-	38,409	-	38,409
	6,298,358	3,252,677	36,182	6,819,156
Total financial assets	45,814,035	45,988,391	2,473,536	48,840,337
Operational Commitments				
End finance	27,471	49,857	27,471	49,857
Islamic properties	199,420	153,279	-	153,279
Islamic personal	6	1,329	-	1,329
Bridging, structured and term loans and financing	5,430,938	6,405,576	-	6,405,576
Forward forex	5,842	-	-	-
Financial guarantees	314,193	650,291	7,832	650,291
Performance guarantees	138,852	93,441	2,939	93,441
	6,116,722	7,353,773	38,242	7,353,773

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

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for net loans, financing and advances for the Group is 23.85% (2017: 25.37%) and the Company is at 86.40% (2017: 25.37%). The financial effect of collateral held for the remaining financial assets are not significant.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality

The credit quality of financial assets are analysed as follows:

Group	2018									
	Neither Past Due Nor Impaired RM'000	Past Due Up To <1 Month RM'000	Past Due 1 To < 3 Months RM'000	Past Due 3 To < 6 Months RM'000	Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net RM'000		
Financial Assets:										
Loans, financing and advances:										
End finance and Islamic property	3,925,706	626,577	326,288	-	550,007	5,428,578	(795,136)	4,633,442		
Personal financing	19,805,346	418,021	199,396	-	156,266	20,579,029	(384,190)	20,194,839		
Auto finance	104,581	43,258	33,254	-	52,790	233,883	(69,644)	164,239		
Bridging, structured and term loans and financing	6,954,666	679,851	132,190	-	1,164,407	8,931,114	(790,515)	8,140,599		
	30,790,299	1,767,707	691,128	-	1,923,470	35,172,604	(2,039,485)	33,133,119		
Deposits with Financial Institutions and Bank Balance:										
Cash and short-term funds	3,411,986	-	-	-	-	3,411,986	-	3,411,986		
Deposits and placements with financial institutions	931,087	-	-	-	-	931,087	-	931,087		
	4,343,073	-	-	-	-	4,343,073	-	4,343,073		
Other Financial Assets:										
Derivative financial assets	67	-	-	-	-	67	-	67		
Financial investments at FVOCI	5,097,105	-	-	-	-	5,097,105	-	5,097,105		
Financial investments at amortised cost	20,350	-	-	-	-	20,350	-	20,350		
Trade receivables	-	493	8	60	24,834	25,395	(24,834)	561		
Other receivables	124,000	3,275	-	-	503,172	630,447	(503,172)	127,275		
Statutory deposits with Bank Negara Malaysia	1,053,000	-	-	-	-	1,053,000	-	1,053,000		
	6,294,522	3,768	8	60	528,006	6,826,364	(528,006)	6,298,358		

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Group	2017									
	Neither Past Due Nor Impaired RM'000	Past Due Up To <1 Month RM'000	Past Due 1 To < 3 Months RM'000	Past Due 3 To < 6 Months RM'000	Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net RM'000		
Financial Assets:										
Loans, financing and advances:										
End finance and Islamic property	3,841,101	701,324	305,148	-	391,344	5,238,917	(833,276)	4,405,641		
Personal financing	20,500,318	279,591	165,995	-	471,700	21,417,604	(807,124)	20,610,480		
Auto finance	140,140	66,485	35,039	-	42,445	284,109	(76,178)	207,931		
Bridging, structured and term loans and financing	6,492,757	-	100,106	-	667,686	7,260,549	(478,357)	6,782,192		
	30,974,316	1,047,400	606,288	-	1,573,175	34,201,179	(2,194,935)	32,006,244		
Deposits with Financial Institutions and Bank Balance:										
Cash and short-term funds	7,787,132	-	-	-	-	7,787,132	-	7,787,132		
Deposits and placements with financial institutions	747,403	-	-	-	-	747,403	-	747,403		
	8,534,535	-	-	-	-	8,534,535	-	8,534,535		
Other Financial Assets:										
Financial investments available-for-sale	3,171,913	-	-	-	-	3,171,913	-	3,171,913		
Trade receivables	-	132	140	23	24,817	25,112	(24,817)	295		
Other receivables	40,538	141	-	-	457,011	497,690	(457,011)	40,679		
Financial investments held-for-sale	38,409	-	-	-	-	38,409	-	38,409		
	3,250,860	273	140	23	481,828	3,733,124	(481,828)	3,251,296		

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Company	2018									
	Neither Past Due Nor Impaired RM'000	Past Due Up To 1 Month RM'000	Past Due 1 To < 3 Months RM'000	Past Due 3 To < 6 Months RM'000	Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net RM'000		
Financial Assets:										
Loans, financing and advances:										
End finance	424,969	190,662	133,116	-	318,043	1,066,790	(366,368)	700,422		
Auto finance	189	193	325	-	16,612	17,319	(16,766)	553		
Bridging, structured and term loans and financing	156,092	89,912	1,295	-	796,522	1,043,821	(418,294)	625,527		
	581,250	280,767	134,736	-	1,131,177	2,127,930	(801,428)	1,326,502		
Deposits with Financial Institutions and Bank Balance:										
Cash and short-term funds	155,077	-	-	-	-	155,077	-	155,077		
Deposits and placements with financial institutions	154,347	-	-	-	-	154,347	-	154,347		
	309,424	-	-	-	-	309,424	-	309,424		
Other Financial Assets:										
Other receivables	36,182	-	-	-	94,939	131,121	(94,939)	36,182		
	36,182	-	-	-	94,939	131,121	(94,939)	36,182		

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Company	2017									
	Neither Past Due Nor Impaired RM'000	Past Due Up To <1 Month RM'000	Past Due 1 To < 3 Months RM'000	Past Due 3 To < 6 Months RM'000	Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net RM'000		
Financial Assets:										
Loans, financing and advances:										
End finance and Islamic property	3,841,101	701,324	305,148	-	391,344	5,238,917	(833,276)	4,405,641		
Personal financing	20,500,318	279,591	165,995	-	471,700	21,417,604	(807,124)	20,610,480		
Auto finance	140,140	66,485	35,039	-	42,445	284,109	(76,178)	207,931		
Bridging, structured and term loans and financing	6,492,757	-	100,106	-	667,686	7,260,549	(478,357)	6,782,192		
	30,974,316	1,047,400	606,288	-	1,573,175	34,201,179	(2,194,935)	32,006,244		
Deposits with Financial Institutions and Bank Balance:										
Cash and short-term funds	7,768,634	-	-	-	-	7,768,634	-	7,768,634		
Deposits and placements with financial institutions	51,368	-	-	-	-	51,368	-	51,368		
	7,820,002	-	-	-	-	7,820,002	-	7,820,002		
Other Financial Assets:										
Loans to subsidiaries	235,943	-	-	-	250,396	486,339	(181,199)	305,140		
Financial investments available-for-sale	3,171,913	-	-	-	-	3,171,913	-	3,171,913		
Other receivables	57,843	-	-	-	86,733	144,576	(86,733)	57,843		
Sukuk Commodity Murabahah	3,245,851	-	-	-	-	3,245,851	-	3,245,851		
Financial investments held-for-sale	38,409	-	-	-	-	38,409	-	38,409		
	6,749,959	-	-	-	337,129	7,087,088	(267,932)	6,819,156		

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Neither Past Due Nor Impaired

(a) High Grade

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

(b) Standard Grade

This refers to financial assets in respect of loans, financing and advances and financial investments at fair value through other comprehensive income which have been disbursed in previous years and are neither past due nor impaired. Standard Grade financial assets also include other financial assets that are neither past due nor impaired.

(c) New Loans During The Year

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

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

Group	2018			Total RM'000
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	
Financial Assets:				
Loans, financing and advances:				
End finance and Islamic property	-	3,102,615	823,091	3,925,706
Personal financing	-	18,864,699	940,647	19,805,346
Auto finance	-	103,441	1,140	104,581
Bridging, structured and term loans and financing	-	4,494,158	2,460,508	6,954,666
	-	26,564,913	4,225,386	30,790,299

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

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

Group	2018			Total RM'000
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	262,346	-	-	262,346
Deposits and placements with financial institutions:				
- with maturity of less than one month	3,149,640	-	-	3,149,640
- with maturity of more than one month	931,087	-	-	931,087
	4,343,073	-	-	4,343,073
Other Financial Asset:				
Derivative financial assets	-	67	-	67
Financial investments at FVOCI	-	5,097,105	-	5,097,105
Financial investments at amortised cost	-	20,350	-	20,350
Other receivables	-	124,000	-	124,000
Statutory deposits with Bank Negara Malaysia	-	1,053,000	-	1,053,000
	-	6,294,522	-	6,294,522
Group				
	2017			
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	Total RM'000
Financial Assets:				
Loans, financing and advances:				
End finance and Islamic property	-	3,011,474	829,627	3,841,101
Personal financing	-	19,853,757	646,561	20,500,318
Auto finance	-	139,429	711	140,140
Bridging, structured and term loans and financing	-	4,368,551	2,124,206	6,492,757
	-	27,373,211	3,601,105	30,974,316

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

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

Group	2017			Total RM'000
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	265,196	-	-	265,196
Deposits and placements with financial institutions:				
- with maturity of less than one month	7,521,936	-	-	7,521,936
- with maturity of more than one month	747,403	-	-	747,403
	8,534,535	-	-	8,534,535
Other Financial Assets:				
Financial investments available-for-sale	-	3,171,913	-	3,171,913
Other receivables	-	40,538	-	40,538
Financial investments held-for-sale	-	38,409	-	38,409
	-	3,250,860	-	3,250,860
Company				
	2018			
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	Total RM'000
Financial Assets:				
Loans, financing and advances:				
End finance and Islamic property	-	424,969	-	424,969
Auto finance	-	189	-	189
Bridging, structured and term loans and financing	-	156,092	-	156,092
	-	581,250	-	581,250

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

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

Company	2018			Total RM'000
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	72,070	-	-	72,070
Deposits and placements with financial institutions:				
- with maturity of less than one month	83,007	-	-	83,007
- with maturity of more than one month	154,347	-	-	154,347
	309,424	-	-	309,424

Other Financial Assets:

Other receivables	-	36,182	-	36,182
	-	36,182	-	36,182

Company

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

Deposits with Financial Institutions and Bank Balance:

Cash at banks and on hand	250,492	-	-	250,492
Deposits and placements with financial institutions:				
- with maturity of less than one month	7,518,142	-	-	7,518,142
- with maturity of more than one month	51,368	-	-	51,368
	7,820,002	-	-	7,820,002

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

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

Company	High Grade RM'000	Standard Grade RM'000	2017	Total RM'000
			New Loans During The Year RM'000	
Other Financial Assets:				
Loans to subsidiaries	-	235,943	-	235,943
Financial investments available-for-sale	-	3,171,913	-	3,171,913
Other receivables	-	57,843	-	57,843
Sukuk Commodity Murabahah	-	3,245,851	-	3,245,851
Financial investments held-for-sale	-	38,409	-	38,409
	-	6,749,959	-	6,749,959

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.

Group	2018		2017	
	RM'000	% to Gross Financing	RM'000	% to Gross Financing
By ageing				
Months-in-arrears 1	1,517,877	4.32%	1,637,894	4.79%
Months-in-arrears 2	682,108	1.94%	613,870	1.79%
	2,199,985	6.25%	2,251,764	6.58%

Company	2018		2017	
	RM'000	% to Gross Financing	RM'000	% to Gross Financing
By ageing				
Months-in-arrears 1	280,767	13.19%	1,637,894	4.79%
Months-in-arrears 2	134,736	6.33%	613,870	1.79%
	415,503	19.53%	2,251,764	6.58%

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

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 Company's policies.

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Impaired financing:				
<i>Individually accessed of which:</i>				
Months-in-arrears 0	151,900	152,608	139,000	152,608
Months-in-arrears 1	12,525	-	12,252	-
Months-in-arrears 2	3,567	50,534	-	50,534
Months-in-arrears 3 and above	680,015	257,888	535,720	257,888
<i>Collectively assessed</i>	1,075,464	1,112,145	443,932	1,112,145
	1,923,471	1,573,175	1,131,177	1,573,175

Impaired financing of which rescheduled and restructured financing

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Consumer	91,424	351,942	12,031	14,044
Business	271,460	235,190	226,290	235,190
	362,884	587,132	238,321	249,234

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(iii) Industry analysis

Group	Cash and short-term deposits and funds and placements with financial institution	Derivative financial assets	Financial investments at FVOCI	Financial investments at amortised cost	Loans, financing and advances	Trade receivables	Other receivables	Statutory deposits with Bank Negara Malaysia	Sukuk Commodity Murabahah	Financial investments held-for-sale	Total
31 December 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial Assets:											
Household sectors	-	-	-	-	24,868,915	-	-	-	-	-	24,868,915
Agriculture	-	-	-	-	210,620	-	-	-	-	-	210,620
Mining and quarrying	-	-	-	-	20,742	-	-	-	-	-	20,742
Manufacturing	-	-	10,119	-	373,067	-	-	-	-	-	383,186
Electricity, gas and water	-	-	502,630	20,350	228,155	-	-	-	-	-	751,135
Construction	13,590	-	585,001	-	5,626,691	-	2,646	-	-	-	6,227,928
Purchase of landed property	-	-	-	-	12,302	-	-	-	-	-	12,302
Wholesale & retail trade	496	-	-	-	161,860	561	737	-	-	-	163,654
and restaurants & hotels											
Transport, storage and communication	-	-	206,977	-	121,927	-	-	-	-	-	328,904
Finance, insurance and business services	3,548,764	-	3,225,927	-	1,035,554	-	-	1,053,000	-	-	8,863,245
Education, health and others	-	-	439,709	-	473,197	-	-	-	-	-	912,906
Purchase of transport vehicles	-	-	-	-	84	-	-	-	-	-	84
Consumption credit	-	-	-	-	5	-	-	-	-	-	5
Others	780,213	67	126,742	-	-	-	123,892	-	-	-	1,030,914
	4,343,063	67	5,097,105	20,350	33,133,119	561	127,275	1,053,000	-	-	43,774,540
Assets not subject to credit risk	10	-	-	-	-	-	-	-	-	-	10
	4,343,073	67	5,097,105	20,350	33,133,119	561	127,275	1,053,000	-	-	43,774,550

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(iii) Industry analysis (cont'd.)

Company	Cash and short-term deposits and funds and placements with financial institution	Derivative financial assets	Financial investments at FVOCI	Financial investments at amortised cost	Loans, financing advances and receivables	Trade receivables	Other receivables	Statutory deposits with Bank Negara Malaysia	Sukuk Commodity Murabahah	Financial investments held-for-sale	Total
31 December 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company											
Financial Assets:											
Household sectors	-	-	-	-	662,133	-	-	-	-	-	662,133
Agriculture	-	-	-	-	3,106	-	-	-	-	-	3,106
Manufacturing	-	-	-	-	117,315	-	-	-	-	-	117,315
Construction	-	-	-	-	436,508	-	-	-	-	-	436,508
Wholesale & retail trade and restaurants & hotels	-	-	-	-	3,077	-	-	-	-	-	3,077
Transport, storage and communication	-	-	-	-	1,963	-	-	-	-	-	1,963
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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(iii) Industry analysis (cont'd.)

Group	Cash and short-term funds and deposits and placements with financial institution	Derivative financial assets	Financial investments at FVOCI	Financial investments at amortised cost	Loans, financing and advances	Trade receivables	Other receivables	Statutory deposits with Bank Negara Malaysia	Sukuk Commodity Murabahah	Financial investments held-for-sale	Total
31 December 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial Assets:											
Household sectors	-	-	-	-	25,153,312	-	-	-	-	-	25,153,312
Agriculture	-	-	-	-	58,317	-	-	-	-	-	58,317
Mining and quarrying	-	-	-	-	5,800	-	-	-	-	-	5,800
Manufacturing	-	-	-	-	171,511	-	-	-	-	-	171,511
Electricity, gas and water	-	-	-	-	22,330	-	-	-	-	-	22,330
Construction	14,170	-	-	-	5,155,112	-	2,709	-	-	-	5,171,991
restaurants & hotels	693	-	-	-	48,230	295	673	-	-	-	49,891
Transport, storage and communication	-	-	-	-	80,147	-	-	-	-	-	80,147
Finance, insurance and business services	7,820,002	-	3,171,913	-	744,225	-	-	-	-	38,409	11,774,549
Education, health and others	-	-	-	-	567,260	-	-	-	-	-	567,260
Others	699,670	39,909	-	-	-	-	37,297	-	-	-	776,876
	8,534,535	39,909	3,171,913	-	32,006,244	295	40,679	-	-	38,409	43,831,984

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(iii) Industry analysis (cont'd.)

Company	Cash and short-term deposits and funds and placements with financial institution	Derivative financial assets	Financial investments at FVOCI	Financial investments at amortised cost	Loans, advances and receivables	Trade receivables	Other receivables	Statutory deposits with Bank Negara Malaysia	Sukuk Commodity Murabahah	Financial investments held-for-sale	Total
31 December 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company											
Financial Assets:											
Household sectors	-	-	-	-	25,153,312	-	-	-	-	-	25,153,312
Agriculture	-	-	-	-	58,317	-	-	-	-	-	58,317
Mining and quarrying	-	-	-	-	5,800	-	-	-	-	-	5,800
Manufacturing	-	-	-	-	171,511	-	-	-	-	-	171,511
Electricity, gas and water	-	-	-	-	22,330	-	-	-	-	-	22,330
Construction	-	-	-	-	5,155,112	-	-	-	-	-	5,155,112
Wholesale & retail trade and restaurants & hotels	-	-	-	-	48,230	-	-	-	-	-	48,230
Transport, storage and communication	-	-	-	-	80,147	-	-	-	-	-	80,147
Finance, insurance and business services	7,820,002	-	3,171,913	-	744,225	-	-	-	-	38,409	11,774,549
Education, health and others	-	-	-	-	567,260	-	-	-	-	-	567,260
Others	-	-	-	-	-	-	57,843	-	3,245,851	-	3,303,694
	7,820,002	-	3,171,913	-	32,006,244	-	57,843	-	3,245,851	38,409	46,340,262

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Credit risk (cont'd.)

(iv) Collateral

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

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

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

- For conventional mortgage and property Islamic - charge over properties;
- For auto loan and financing - ownership claims over the vehicles financed;
- For project loans and financing - charges over the project being financed; and
- For others loan, advances and financing - charges over business assets such as premises, inventories, marketable securities, real estate, and trade receivables or deposits.

(v) 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 MEVs incorporated into the ECL calculations include, but not limited to House Price Index (HPI) and Consumer Price Index (CPI). The forward-looking MEVs are supported with 3 economic scenarios i.e baseline, best and worst case scenarios.

Macroeconomic Variables (MEV)	Base Scenario		Best Scenario		Worst Scenario	
	Next 12 months	Remaining Forecast Period	Next 12 months	Remaining Forecast Period	Next 12 months	Remaining Forecast Period
House Price Index (HPI)	196.28	211.79	197.19	216.54	194.61	203.77
Consumer Price Index (CPI) - Year on Year Change	1.38	2.11	2.04	2.57	1.11	1.80

Sensitivity analysis for macroeconomic variables

At the reporting date, if the forward-looking MEVs had changed by 10% favourable/non-favourable, with all other variables held constant, the Group's and the Company's net profit and shareholders' equity would have been as per the following table, arising as a result of changes in the probability of default.

2018	Tax rate	Group		Company	
		10% favourable RM'000	10% non-favourable RM'000	10% favourable RM'000	10% non-favourable RM'000
<u>Sensitivity to HPI</u>					
		8,622	(8,387)	2,460	(2,390)
	24%	6,553	(6,374)	1,870	(1,816)
<u>Sensitivity to CPI</u>					
		2,343	(2,298)	1	(1)
	24%	1,781	(1,746)	1	(1)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Market risk

Market risk is the risk of potential loss as a result of changes in the intrinsic value of financial instruments caused by movements in market variables such as interest rates, equity pricing and other related macro economic factors that will eventually affect the Group 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	
		+100 basis points RM'000	-100 basis points RM'000	+100 basis points RM'000	-100 basis points RM'000
2018	Tax rate				
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
<hr/>					
2017					
Impact to profit before tax		(217,338)	217,338	(224,299)	224,299
Impact to profit after tax and equity	24%	(165,177)	165,177	(170,467)	170,467

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Market risk (cont'd.)

Interest/profit rate risk

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

Group 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	3,149,641	-	-	-	-	262,345	3,411,986	3.26
Deposits and placements with financial institutions	1,874	154,347	774,866	-	-	-	931,087	3.65
Derivative assets	-	67	-	-	-	-	67	
Financial assets at FVOCI	5,097	192,538	373,038	2,548,826	1,977,605	-	5,097,104	4.09
Financial assets at amortised cost	-	-	-	20,350	-	-	20,350	4.22
Loans, financing and advances:								
- non-impaired	449,953	510,074	447,912	2,235,452	8,693,950	20,002,265	32,339,606	6.70
- impaired, net of allowances*	-	-	-	-	-	793,513	793,513	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,053,000	1,053,000	
Other receivables [^]	-	-	-	-	-	120,489	120,489	
Total financial assets	3,606,565	857,026	1,595,816	4,804,628	10,671,555	22,231,612	43,767,202	
Financial Liabilities								
Deposits from customers	6,313,061	7,648,313	8,087,677	1,929,971	53,158	177,269	24,209,449	4.08
Deposits and placements of banks and other financial institutions	1,368,508	3,517,649	2,812,625	871,612	-	8,457	8,578,851	4.05
Derivative liabilities	2	-	-	-	-	-	2	
Recourse obligation on loans/ financing sold	7,597	20,511	565,744	1,541,666	-	-	2,135,518	4.51
Sukuk - MBSB SC Murabahah	-	-	503,864	1,054,590	409,621	-	1,968,075	4.88
Total financial liabilities	7,689,168	11,186,473	11,969,910	5,397,839	462,779	185,726	36,891,894	
Total interest/profit sensitivity gap	(4,082,603)	(10,329,447)	(10,374,094)	(593,211)	10,208,776	22,045,886	6,875,308	

* 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 Payment (PLCHP), deferred expenses due to issuance of Sukuk Commodity Murabahah and deferred expenses due to issuance of Sukuk - MBSB SC Murabahah as these items are classified as non-financial assets.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Market risk (cont'd.)

Interest/profit rate risk (cont'd.)

Group 2017	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Total RM'000	Average interest rate % per annum
Financial Assets								
Cash and short-term funds	7,521,937	-	-	-	-	265,196	7,787,132	3.42
Deposits and placements with financial institutions	335	122,860	624,208	-	-	-	747,403	3.33
Loans, financing and advances:								
- non-impaired	124,222	366,353	439,708	3,428,774	28,268,945	(1,296,294)	31,331,708	6.80
- impaired, net of allowances*	-	-	-	-	-	674,536	674,536	
Financial assets held-for-sale	-	-	-	-	-	38,409	38,409	
Financial investments								
available-for-sale	-	10,151	189,945	1,879,936	1,091,881	-	3,171,913	4.02
Other receivables^	-	-	-	-	-	33,393	33,393	
Total financial assets	7,646,494	499,364	1,253,861	5,308,710	29,360,826	(284,760)	43,784,495	
Financial Liabilities								
Deposits from customers	9,019,516	6,237,005	8,378,681	1,392,870	472,417	26,059	25,526,548	3.98
Deposits and placements of banks and other financial institutions	3,944,872	918,972	1,286,444	977,851	100,342	108	7,228,589	3.86
Recourse obligation on loans/ financing sold	9,573	426,637	41,708	1,760,249	-	-	2,238,167	4.51
Sukuk - MBSB SC Murabahah	92,937	-	421,973	1,134,083	638,884	-	2,287,877	4.83
Total financial liabilities	13,066,898	7,582,614	10,128,806	5,265,053	1,211,643	26,167	37,281,181	
Total interest/profit sensitivity gap	(5,420,404)	(7,083,250)	(8,874,945)	43,657	28,149,183	(310,927)	6,503,314	

* 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 Payment (PLCHP), deferred expenses due to issuance of Sukuk Commodity Murabahah and deferred expenses due to issuance of Sukuk - MBSB SC Murabahah as these items are classified as non-financial assets.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

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 allowances*	-	-	-	-	-	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 #	-	-	-	-	-	105,135	105,135	
Total financial liabilities	-	-	-	-	-	105,135	105,135	
Total interest/profit sensitivity gap	86,522	154,419	112,617	126,436	757,489	329,490	1,566,973	

* This is arrived after deducting impairments from gross impaired financing.

[^] Other receivables exclude loan commitment fees, foreclosed properties, prepayments and deposits and Public Low Cost Housing Payment (PLCHP) 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.

Company 2017	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Total RM'000	Average interest rate % per annum
Financial Assets								
Cash and short-term funds	7,518,142	-	-	-	-	250,492	7,768,634	3.42
Deposits and placements with financial institutions	303	-	51,065	-	-	-	51,368	3.49
Loans, financing and advances:								
- non-impaired	124,222	366,353	439,708	3,428,774	28,268,945	(1,296,292)	31,331,710	6.80
- impaired, net of allowances*	-	-	-	-	-	674,536	674,536	
Financial assets held-for-sale	-	-	-	-	-	38,409	38,409	
Sukuk Commodity Murabahah	8,436	1	335,242	1,322,366	1,579,805	-	3,245,850	3.40
Financial investments available-for-sale	-	10,151	189,945	1,879,936	1,091,881	-	3,171,913	4.02
Other receivables [^]	22,348	-	-	-	-	32,538	54,886	6.75
Total financial assets	7,673,451	376,505	1,015,960	6,631,076	30,940,631	(300,317)	46,337,306	

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Market risk (cont'd.)

Interest/profit rate risk (cont'd.)

Company 2017	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Total RM'000	Average interest rate % per annum
Financial Liabilities								
Deposits from customers	9,019,516	6,237,005	8,378,681	1,392,870	472,417	26,059	25,526,548	3.98
Deposits and placements of banks and other financial institutions	3,944,872	918,972	1,286,444	977,851	100,342	108	7,228,589	3.86
Recourse obligation on loans/ financing sold	9,573	426,637	41,708	1,760,249	-	-	2,238,167	4.51
Sukuk - MBSB SC Murabahah	92,937	-	421,973	1,134,083	638,884	-	2,287,877	4.83
Other payables #	2,905,099	-	-	-	-	112,629	3,017,728	6.75
Total financial liabilities	15,971,997	7,582,614	10,128,806	5,265,053	1,211,643	138,796	40,298,909	
Total interest/profit sensitivity gap	(8,298,546)	(7,206,109)	(9,112,846)	1,366,023	29,728,988	(439,113)	6,038,397	

* This is arrived after deducting impairments from gross impaired financing.

^ Other receivables exclude loan commitment fees, foreclosed properties, prepayments and deposits and Public Low Cost Housing Payment (PLCHP) and deferred expenses due to issuance of Sukuk - MBSB SC Murabahah 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.

Foreign Exchange Risk

The Group and the Company are 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 and the Company take 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.

As at the end of the reporting period, the financial assets and financial liabilities of the Group and the Company in the currency other than Ringgit Malaysia ("MYR") are not material to the Group and to the Company, therefore the foreign exchange risk sensitivity analysis is not presented.

Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Liquidity risk (cont'd.)

(a) Analysis of financial instruments by remaining contractual maturities for assets and liabilities

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.

Group	2018 RM'000				Total
	On demand or within one year	One to five years	Over five years	No specific maturity	
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*	127,275	-	-	-	127,275
Statutory deposits with Bank Negara Malaysia	-	-	-	1,053,000	1,053,000
Total assets	6,813,230	6,264,701	29,643,619	1,053,000	43,774,550
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 loans/financing sold	593,853	1,541,665	-	-	2,135,518
Sukuk - MBSB SC Murabahah	308,864	1,064,590	594,621	-	1,968,075
Total liabilities	31,405,117	5,341,560	647,488	-	37,394,165
Net liquidity gap	(24,591,887)	923,141	28,996,131	1,053,000	6,380,385
Operational commitments:					
Financial guarantees	208,989	105,204	-	-	314,193
	208,989	105,204	-	-	314,193

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

Other payables exclude other provisions and accrual and deferred income as these items are classified as non-financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Liquidity risk (cont'd.)

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

Group	2017 RM'000				Total
	On demand or within one year	One to five years	Over five years	No specific maturity	
Assets					
Cash and short-term funds	7,787,132	-	-	-	7,787,132
Deposits and placements with other financial institutions	747,403	-	-	-	747,403
Financial investments available-for-sale	200,096	1,879,936	1,091,881	-	3,171,913
Financial assets held-for-sale	38,409	-	-	-	38,409
Loans, financing and advances	795,081	3,476,095	27,735,068	-	32,006,244
Trade receivables	295	-	-	-	295
Other receivables*	40,679	-	-	-	40,679
Total assets	9,609,095	5,356,031	28,826,949	-	43,792,075
Liabilities					
Deposits from customers	23,768,989	1,757,374	185	-	25,526,548
Deposits and placements of banks and other financial institutions	6,360,614	867,975	-	-	7,228,589
Trade payables	210	-	-	-	210
Other payables	274,224	-	-	-	274,224
Recourse obligation on loans/financing sold	477,918	1,760,249	-	-	2,238,167
Sukuk - MBSB SC Murabahah	514,909	1,134,083	638,885	-	2,287,877
Total liabilities	31,396,864	5,519,681	639,070	-	37,555,615
Net liquidity gap	(21,787,769)	(163,650)	28,187,879	-	6,236,460
Operational commitments:					
Financial guarantees	255,997	461,335	26,400	-	743,732
	255,997	461,335	26,400	-	743,732

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Liquidity risk (cont'd.)

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

Company	2018 RM'000				Total
	On demand or within one year	One to five years	Over five years	No specific maturity	
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 assets	746,357	122,099	803,652	-	1,672,108
Liabilities					
Other payables	185,695	-	-	-	185,695
Total liabilities	185,695	-	-	-	185,695
Net liquidity gap	560,662	122,099	803,652	-	1,486,413
Operational commitments:					
Financial guarantees	7,257	575	-	-	7,832
	7,257	575	-	-	7,832

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Liquidity risk (cont'd.)

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

Company	2017 RM'000				Total
	On demand or within one year	One to five years	Over five years	No specific maturity	
Assets					
Cash and short-term funds	7,768,634	-	-	-	7,768,634
Deposits and placements with other financial institutions	51,368	-	-	-	51,368
Financial investments available-for-sale	200,096	1,879,936	1,091,881	-	3,171,913
Sukuk Commodity Murabahah	343,679	1,322,366	1,579,805	-	3,245,850
Loans, financing and advances	795,081	3,476,095	27,735,068	-	32,006,244
Financial assets held-for-sale	38,409	-	-	-	38,409
Other receivables	57,843	-	-	-	57,843
	9,255,110	6,678,397	30,406,754	-	46,340,261
Liabilities					
Deposits from customers	23,768,989	1,757,374	185	-	25,526,548
Deposits and placements of banks and other financial institutions	6,360,614	867,975	-	-	7,228,589
Other payables	3,176,133	-	-	-	3,176,133
Recourse obligation on loans/financing sold	477,918	1,760,249	-	-	2,238,167
Sukuk - MBSB SC Murabahah	514,909	1,134,083	638,885	-	2,287,877
	34,298,563	5,519,681	639,070	-	40,457,314
Net liquidity gap	(25,043,453)	1,158,716	29,767,684	-	5,882,947
Operational commitments:					
Financial guarantees	255,997	461,335	26,400	-	743,732
	255,997	461,335	26,400	-	743,732

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

Liquidity risk (cont'd.)

(b) Analysis of financial instruments by contractual maturity of liabilities at undiscounted value

Group	2018 RM'000				Total
	On demand or within one year	One to five years	Over five years	No specific maturity	
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
Recourse obligation on loans/financing sold	675,578	1,717,725	-	-	2,393,303
Sukuk - MBSB SC Murabahah	399,459	1,309,715	670,125	-	2,379,299
Other payables	502,045	-	-	-	502,045
	31,922,013	6,197,592	739,823	-	38,859,428

Group	2017 RM'000				Total
	On demand or within one year	One to five years	Over five years	No specific maturity	
Liabilities					
Deposits from customers	23,908,957	2,032,288	224	-	25,941,469
Deposits and placements of banks and other financial institutions	6,409,116	1,070,754	-	-	7,479,870
Recourse obligation on loans/financing sold	549,703	1,996,200	-	-	2,545,903
Sukuk - MBSB SC Murabahah	428,661	1,709,174	670,125	-	2,807,960
Other payables	274,224	-	-	-	274,224
	31,570,661	6,808,416	670,349	-	39,049,426

Company	2017 RM'000				Total
	On demand or within one year	One to five years	Over five years	No specific maturity	
Liabilities					
Deposits from customers	23,908,957	2,032,288	224	-	25,941,469
Deposits and placements of banks and other financial institutions	6,409,116	1,070,754	-	-	7,479,870
Recourse obligation on loans/financing sold	549,703	1,996,200	-	-	2,545,903
Sukuk - MBSB SC Murabahah	428,661	1,709,174	670,125	-	2,807,960
Other payables	3,176,133	-	-	-	3,176,133
	34,472,570	6,808,416	670,349	-	41,951,335

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

48. Financial risk management (cont'd.)

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 recognizes and emphasizes the importance of operational risk management and manages this risk through a control-based environment where processes are documented, authorization 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 48(c).

49. Capital management

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

The Group and the Company manage their capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2018.

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

50. Fair values

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

Loans, financing and advances

The fair value of fixed rate loans with remaining maturities of less than one year and variable rate loans are estimated to approximate the carrying amount. For fixed rate loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at prevailing rates offered for similar loans to new borrowers with similar credit profiles as at the reporting date. The fair value of impaired fixed and variable rate loans is represented by their carrying amount, net of individual impairment provisions, being the expected recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

50. Fair values(cont'd.)

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

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.

Sukuk Commodity Murabahah and Sukuk - MBSB SC Murabahah

The fair values of Sukuk Commodity Murabahah and Sukuk - MBSB SC Murabahah are estimated by discounting expected future cash flows at the effective profit rate of similar instruments.

Recourse obligation on loans/financing sold

The fair values for recourse obligations on loans/financing sold to Cagamas Berhad are determined based on discounted cash flows of future instalment payments at prevailing rates quoted by Cagamas Berhad as at reporting date.

- (b) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value:

	Note
Cash and short-term funds	5(a)
Deposits and placements with financial institutions	5(b)
Financial investments at amortised cost	9
Trade receivables	12
Other receivables (excluding foreclosed properties, and prepayments and deposits)	13
Trade payables	25
Other payables	26

The carrying amounts of these financial assets and liabilities are reasonable approximations of fair values, either due to their short-term nature or the fact that these are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

50. Fair values (cont'd.)

That carrying amount of cash and short-term funds, deposits and placements with financial institutions, other receivables (excluding prepayments and deposits) and other payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The tables below analyses other financial instruments at fair value.

Group	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000		
2018								
Financial assets								
Financial investments at FVOCI	-	5,097,105	-	5,097,105	-	-	-	5,097,105
Loans, financing and advances	-	-	-	-	-	35,091,760	35,091,760	33,133,119
Financial investments at amortised cost	-	-	-	-	-	20,145	20,145	20,350
Derivative financial assets	-	67	-	67	-	-	-	67
	-	5,097,172	-	5,097,172	-	20,145	35,091,760	40,209,077
Financial liabilities								
Deposits from customers	-	-	-	-	-	24,219,537	24,219,537	24,209,449
Deposits and placements of banks and other financial institutions	-	-	-	-	-	8,582,337	8,582,337	8,578,851
Sukuk - MBSB SC Murabahah	-	-	-	-	-	1,993,863	1,993,863	1,968,075
Recourse obligation on financing sold	-	2	-	2	-	-	2,149,454	2,135,518
Derivative financial liabilities	-	-	-	-	-	-	-	2
	-	2	-	2	-	34,795,737	2,149,454	36,945,193
Company								
Financial assets								
Loans, financing and advances	-	-	-	-	-	-	1,328,331	1,328,331
	-	-	-	-	-	-	1,328,331	1,328,331

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

50. Fair values (cont'd.)

The tables below analyses 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			Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
2017								
Financial assets								
Financial investments available-for-sale	-	3,171,913	-	-	-	-	3,171,913	3,171,913
Loans, financing and advances	-	-	-	-	-	33,353,406	33,353,406	32,006,244
	-	3,171,913	-	-	-	33,353,406	36,525,319	35,178,157
Financial liabilities								
Deposits from customers	-	-	-	-	25,964,747	-	25,964,747	25,526,548
Deposits and placements of banks and other financial institutions	-	-	-	-	7,130,275	-	7,130,275	7,228,589
Sukuk - MBSB SC Murabahah	-	-	-	-	2,296,335	-	2,296,335	2,287,877
Recourse obligation on financing sold	-	-	-	-	-	2,259,385	2,259,385	2,238,167
	-	-	-	-	35,391,357	2,259,385	37,650,742	37,281,181
Company								
Financial assets								
Financial investments available-for-sale	-	3,171,913	-	-	-	-	3,171,913	3,171,913
Sukuk Commodity Murabahah	-	-	-	-	3,288,865	-	3,288,865	3,245,851
Loans, financing and advances	-	-	-	-	-	33,353,406	33,353,406	32,006,244
	-	3,171,913	-	-	3,288,865	33,353,406	39,814,184	38,424,008
Financial liabilities								
Deposit from customers	-	-	-	-	25,964,747	-	25,964,747	25,526,548
Deposits and placements of banks and other financial institutions	-	-	-	-	7,130,275	-	7,130,275	7,228,589
Sukuk - MBSB SC Murabahah	-	-	-	-	2,296,335	-	2,296,335	2,287,877
Recourse obligation on financing sold	-	-	-	-	-	2,259,385	2,259,385	2,238,167
	-	-	-	-	35,391,357	2,259,385	37,650,742	37,281,181

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

50. Fair values (cont'd.)

In relation to assets where the fair values are measured under level 3 of the fair value hierarchy, a description of the significant unobservable inputs asset in the valuation is as follows:

	Valuation technique	Significant unobservable inputs	Range (weighted average)
Bridging, structured and term loans and financing	*DCF method	Interest/profit rate	0.9%-11.5% (4.6%)
Recourse obligation on loans/financing sold	*DCF method	Interest/profit rate	4.2%-4.6% (4.5%)

* DCF method refers to the discounted cash flows method where future expected cash flows are discounted at rates prevailing at the reporting date.

51. Segment information

The Group is organised into four major business 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; and
- (iv) Hotel operations - the leasing of hotel rooms, sale of food and beverage and other related income.
- (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 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

31 December 2018

51. Segment information (cont'd.)

(a) Business segments (cont'd.)

Revenue and expenses	Banking		Property development		Leasing of real property		Hotel operations		Investment holding		Others		Eliminations		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue																
External sales	2,089,310	-	45,945	41,352	-	-	6,925	6,914	1,003,757	3,211,497	-	-	-	-	3,146,937	3,259,763
Inter-segment sales	21,435	-	-	-	899	899	3,916	3,802	10,280	27,776	-	-	(36,530)	(32,477)	-	-
Total revenue															3,146,937	3,259,763
Result																
Segment results	447,417	-	(65,605)	(64,312)	(16,926)	(14,860)	(22,268)	(18,954)	365,584	538,700	(238)	(194)	145,609	110,352	853,573	550,732
Taxation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(196,173)	(121,735)
Zakat	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,000)	(11,871)
Net profit for the year															642,400	417,126
Assets																
Segment assets	44,945,851	-	370,851	228,146	5,956	6,198	64,552	66,792	10,669,302	51,011,829	371	372	(10,622,371)	(6,503,190)	45,425,512	44,810,147
Consolidated total assets															45,425,512	44,810,147
Liabilities																
Segment liabilities	40,045,507	-	956,607	747,279	177,144	160,460	209,901	189,850	3,200,138	43,838,986	3,529	3,291	(6,952,918)	(7,254,582)	37,639,908	37,685,284
Consolidated total liabilities															37,639,908	37,685,284
Other Information																
Capital expenditure	29,731	-	120,128	33,871	-	-	26	238	-	3,723	-	-	-	-	149,885	37,832
Depreciation property, plant and equipment	4,290	-	-	-	186	186	2,335	2,369	1,804	8,225	-	-	-	228	8,615	11,008
Amortisation of land used rights and intangible assets	9,635	-	-	-	20	18	158	161	1,731	10,823	-	-	-	-	11,544	11,002
Impairment for investments in subsidiaries	-	-	-	-	-	-	-	-	-	2	-	-	-	(2)	-	-
Non-cash expenses other than depreciation and amortisation	136,579	-	49,819	41,945	-	-	(8)	8	11,338	646,140	-	-	(81,862)	(55,204)	115,866	632,889

(b) Geographical Segments:

The Group's activities are in Malaysia, therefore segmental reporting is not analysed by geographical locations.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

52. The Operations of Islamic Business

Statement of financial position as at 31 December 2018

		Group	
	Note	2018 RM'000	2017 RM'000
Assets			
Cash and short-term funds	(a)	3,242,228	6,732,883
Deposits and placements with banks and other financial institutions	(a)	776,739	747,100
Derivative financial assets		67	-
Financial assets at fair value through other comprehensive income ("FVOCI")	(b)	5,097,105	-
Financial investments available-for-sale		-	3,171,913
Financial assets at amortised cost	(c)	20,350	-
Financial assets held-for-sale		-	8,734
Financing and advances	(d)	31,806,617	28,553,830
Other receivables	(e)	578,064	1,958,135
Statutory deposits with Bank Negara Malaysia		1,053,000	-
Investment property		820	-
Property and equipment		20,923	-
Intangible assets		104,692	-
Tax recoverable		74,587	-
Total assets		42,775,192	41,172,595
Liabilities			
Deposits from customers	(f)	24,209,449	24,711,466
Deposits and placements of banks and other financial institutions		8,578,851	7,228,589
Derivative financial liabilities		2	-
Other payables	(g)	515,834	2,432,036
Recourse obligation on financing sold		2,135,518	1,269,652
Sukuk-MBSB Structured Covered ("SC") Murabahah		1,968,075	2,287,877
Provision for taxation and zakat		13,000	73,982
Deferred tax liabilities		41,552	-
Total liabilities		37,462,281	38,003,602
Equity			
Share capital		4,625,859	4,000
Reserves		687,052	3,164,993
Total equity		5,312,911	3,168,993
Total Liabilities and Equity		42,775,192	41,172,595

As disclosed in Note 1, on 2 April 2018, the Company transferred all of its Shariah-compliant assets and liabilities to the Bank. Further details are as disclosed in Note 53.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

52. The operations of Islamic business (cont'd.)

Statement of comprehensive income for the year ended 31 December 2018

	Note	Group	
		2018 RM'000	2017 RM'000
Income derived from investment of general investment deposits and Islamic capital funds	(h)	2,604,687	2,422,414
Income attributable to depositors		(1,272,930)	(1,077,119)
Income attributable to securitisation		(97,665)	(96,978)
Income attributable to sukuk		(107,299)	(122,675)
Net income from Islamic financing operations and securities		1,126,793	1,125,642
Net other income		11,942	26,107
Profit expenses		-	(959)
Other expenses		(328,456)	(271,002)
Impairment allowance		(129,052)	(566,840)
Profit before taxation and zakat		681,227	312,948
Taxation		(172,697)	(66,564)
Zakat		(13,000)	(11,871)
Profit for the year		495,530	234,513
Other comprehensive income - Fair value reserve, which subsequently to profit or loss		6,670	13,154
Total comprehensive income for the year, net of tax		502,200	247,667

Consequent to the First Tranche Transfer on 2 April 2018, profits pertaining to Operations of Islamic business vested is segregated between the Company and the Bank. The breakdown of Islamic business profits for the year by legal entity as follows:

	Group RM'000	Company RM'000	Bank RM'000
Profit for the year	495,530	156,828	338,702

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

52. The operations of Islamic business

(a) Cash and short-term funds and deposits and placements with financial institutions

	Group	
	2018	2017
	RM'000	RM'000
Cash and short-term funds:		
Cash at banks	179,508	1,207,493
Deposits and placements with financial institutions with maturity less than one month	3,062,720	5,525,390
	<hr/>	<hr/>
Deposits and placements with financial institutions with maturity more than one month	3,242,228	6,732,883
	776,739	747,100
	<hr/>	<hr/>
	4,018,967	7,479,983

The weighted average effective yield rate of deposits with financial institutions at the reporting date was 3.65% (2017: 3.26%) per annum.

(b) Financial assets at FVOCI

	Group	
	2018	2017
	RM'000	RM'000
At fair value		
Money Market Instruments		
Malaysian Government Investment Issues	2,154,192	-
Debt securities:		
<u>In Malaysia</u>		
Private and Islamic debt securities	1,060,628	-
Government Guaranteed debt securities	1,882,285	-
	<hr/>	<hr/>
	5,097,105	-

The ECL/impairment allowance for the instruments above is nil.

(c) Financial assets at amortised cost

	Group	
	2018	2017
	RM'000	RM'000
At amortised cost		
Quoted securities:		
<u>In Malaysia</u>		
Islamic Medium Term Notes	20,356	-
Less: ECL/Impairment allowance - Stage 1	(6)	-
	<hr/>	<hr/>
	20,350	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

52. The operations of Islamic business (cont'd.)

(d) Financing

	Group	
	2018	2017
	RM'000	RM'000
(i) By type:		
Term financing		
- Bridging financing	716,015	11,310,360
- Property financing	4,340,081	7,058,100
- Personal financing	20,562,117	33,958,447
- Auto Financing	213,898	300,651
- Hire purchase receivables	781,118	-
- Other term financing	5,456,952	-
Trusts receipts	51,525	-
Staff financing	41,277	18,571
Revolving Credit	743,218	-
Others	138,473	-
Less: Unearned income	-	(21,651,643)
Reclassification to AHS	-	(1,144,160)
Gross financing and advances	33,044,674	29,850,326
Less: Impairment allowance		
- Individual assessment allowance	-	(435)
- Collective assessment allowance	-	(1,296,061)
- Stage 1	(346,537)	-
- Stage 2	(455,639)	-
- Stage 3	(435,881)	-
Net financing and advances	31,806,617	28,553,830
(ii) By contract:		
Bai'	4,384,353	14,162,791
Tawarruq	23,698,767	9,892,992
Ijarah	4,111,153	-
Istisna'	850,401	-
Contract financing	-	5,794,543
	33,044,674	29,850,326

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

52. The operations of Islamic business (cont'd.)

(d) Financing (cont'd.)

(iii) Movement in gross financing and advances

	Group December-18			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Gross carrying amount upon adoption of MFRS 9 as at 1 January 2018	729,499	247,871	111,424	1,088,794
Vesting of assets from MBSB Group as at 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 / disbursed 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 movement	109,548	(69,114)	141,075	181,509
Write-offs	-	-	(566,310)	(566,310)
Transfer from asset 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

(iv) Movement in impairment allowance for financing and advances

	Group	
	2018 RM'000	2017 RM'000
Collective Assessment Allowance		
Balance as at 1 January	1,296,061	1,870,623
- effects of MFRS 9 adoption	(1,296,061)	-
As restated	-	1,870,623
Impairment during the year	-	560,864
Reclassification to AHS	-	(1,135,426)
Balance as at 31 December	-	1,296,061
Individual Assessment Allowance		
Balance as at 1 January	435	165
- effects of MFRS 9 adoption	(435)	-
As restated	-	165
Impairment during the year	-	270
Balance as at 31 December	-	435

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

52. The operations of Islamic business (cont'd.)

(d) Financing (cont'd.)

(iv) Movement in impairment allowance for financing and advances (cont'd.)

2018	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Loss allowance upon adoption of MFRS 9 as at 1 January 2018	16,691	6,665	45,716	69,072
Vesting of assets from MBSB Group	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 Income Statement	(163,136)	3,584	310,952	151,400
Changes in the loss allowance:				
- 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 / disbursed during the year	72,027	43,512	26,587	142,126
Financing repaid 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 asset held-for-sale	666	685	107,108	108,459
Loss allowance as at 31 December 2018	346,537	455,639	435,881	1,238,057

* The Group has had a revision of ECL upon adoption of MFRS 9 post vesting of assets and liabilities from the Company to the Bank. The adjustment of the ECL amounting to RM50,757,000 was subsequently transferred to the Bank.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

52. The operations of Islamic business (cont'd.)

(d) Financing (cont'd.)

(v) Movement for impaired financing and advances

	Group	
	2018 RM'000	2017 RM'000
Balance as at 1 January	697,611	1,657,995
Acquisition of MBSB Bank	111,039	-
Classified as impaired during the year	520,930	517,959
Reclassified as non-impaired	(206,793)	(326,361)
Amount recovered	(56,827)	(8,174)
Amount written off	(273,667)	-
Reclassification to AHS	-	(1,143,808)
Balance as at 31 December	792,293	697,611
Less: Impairment allowance		
- Collective assessment allowance	-	(1,515,803)
- Reclassification to AHS	-	1,135,338
- Individual assessment allowance	-	(435)
- Stage 3	(435,881)	-
Allowance for impairment	(435,881)	(380,900)
Net impaired financing	356,412	316,711
Net impaired financing as a percentage of net financing	1.1%	1.1%

(e) Other receivables

	Group	
	2018 RM'000	2017 RM'000
Inter-branch transaction	-	1,029,512
Financing to related companies	385,031	-
Amount due from holding company	98,666	-
Prepayments and deposits	6,235	2,874
Sundry receivables	88,132	925,749
Total	578,064	1,958,135

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

52. The operations of Islamic business (cont'd.)

(f) Deposits from customers

(i) By type of deposit:

	Group	
	2018	2017
	RM'000	RM'000
<u>Non-Mudharabah Funds:</u>		
Demand deposits:		
<i>Tawarruq</i>	225,520	-
Savings deposits:		
<i>Tawarruq</i>	76,558	-
<i>Wadiah</i>	-	56,626
Commodity Murabahah Term Deposits:		
<i>Tawarruq</i>	23,907,371	24,092,386
	<hr/> 24,209,449	<hr/> 24,149,012
<u>Mudharabah Funds:</u>		
General investment deposits	-	562,454
	<hr/> -	<hr/> 562,454
	<hr/> 24,209,449	<hr/> 24,711,466

(ii) By type of customer:

	Group	
	2018	2017
	RM'000	RM'000
Government and statutory bodies	14,746,960	10,093,494
Business enterprises	6,371,297	12,475,856
Individuals	3,091,192	2,142,116
	<hr/> 24,209,449	<hr/> 24,711,466

(iii) By maturity of deposits from customers:

	Group	
	2018	2017
	RM'000	RM'000
Due within six months	17,474,783	19,808,854
More than six months to one year	4,818,107	3,402,533
More than one year to three years	723,813	662,243
More than three years	1,192,746	837,836
	<hr/> 24,209,449	<hr/> 24,711,466

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

52. The operations of Islamic business (cont'd.)

(g) Other payables

	Group	
	2018	2017
	RM'000	RM'000
Amount due to related companies	35,437	-
Al-Mudharabah security funds	123,401	112,629
Disbursement payable	-	100,489
Proportionate operating expenses	-	998,732
Sundry creditors	168,112	1,220,186
Other provisions and accruals	82,292	-
Expected credit losses for commitment and contingencies	93,943	-
Deferred income	12,649	-
	515,834	2,432,036

(h) Income derived from investment of general investment deposits and Islamic capital funds

	Group	
	2018	2017
	RM'000	RM'000
Financing	2,296,125	2,145,098
Income from securities	31,696	-
Financial assets at FVOCI	143,335	114,160
Deposits with financial institutions	133,531	163,156
	2,604,687	2,422,414

53. Significant event

On 21 December 2016, MBSB ("the Company") announced that Bank Negara Malaysia ("BNM") had via its letter on the same date, informed the Company that it has no objection-in-principle for the Company to commence negotiations with the shareholders of Asian Finance Bank Berhad ("AFB") namely, Qatar Islamic Bank, Financial Assets Bahrain W.L.L, RUSD Investment Bank Inc and Tadhamon International Islamic Bank (collectively, the "Vendors") for the proposed merger of the Company and AFB ("BNM Letter"). BNM had, in its letter stipulated a deadline of six (6) months from the date of the BNM Letter for the Company to complete negotiations for the proposed merger of the Company and AFB.

On 19 June 2017, the Board of Directors ("Board") announced that the Company had on the same date, submitted an application to BNM within the stipulated timeframe, to seek the approvals of BNM and/or the Ministry of Finance, Malaysia ("MOF") for the proposed merger. On 18 August 2017, the Board announced that the MOF (through BNM), had via BNM's letter dated 18 August 2017 granted its approval to the Company for the proposed acquisition of 100% equity interest in AFB ("MOF/BNM Approval").

On 6 November 2017, RHB Investment Bank Berhad ("RHB Invest") and AmInvestment Bank Berhad ("AM Invest") on behalf of the Board, announced that the Company had on the same date entered into the conditional share purchase agreement with the Vendors, for the proposed acquisition by the Company of the entire equity interest in AFB from the Vendors for an aggregate purchase consideration of RM644,952,807.66 to be satisfied by way of cash amounting to RM396,894,036.26 and the issuance of 225,507,974 new ordinary shares of the Company ("Consideration Shares(s)") at an issue price of RM1.10 per Consideration Share ("the Acquisition").

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

53. Significant event (cont'd.)

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

Pursuant to the abovesaid approval and upon completion of the transfer of shares and the payment of the balance of the purchase consideration to the Vendor, AFB became a wholly owned subsidiary of the Company on 7 February 2018.

The fair value of the assets and liabilities arising from the acquisition are as follows:

	Fair value RM'000
Share capital	532,530
Regulatory reserve	5,234
Fair value reserve	98
Accumulated losses	(63,659)
	474,203
Add: Provisional goodwill (Note 19)	188,790
	662,993

The purchase price allocation is still ongoing as at the reporting date and will be finalised in the next financial year.

	Fair value RM'000
Purchase consideration satisfied via cash	396,894
Purchase consideration satisfied via issuance of Consideration Shares at market value on 7 February 2018 of RM1.18 per share	266,099
	662,993

	RM'000
Cash acquired from acquisition of MBSB Bank Berhad	577,970
Purchase consideration of MBSB Bank Berhad satisfied via cash	(396,894)
Net cash flows from acquisition of MBSB Bank Berhad	181,076

The fair value of acquired and the residual goodwill has been provisionally accounted for as the accounting for the acquisition is still incomplete at the time the financial statements have been authorised for issue.

On 2 April 2018, the Company via the First Tranche Transfer, completed the transfer all of its Shariah-compliant assets and liabilities ("Identified A&L") to AFB ("the First Tranche Transfer") as a going concern and changed the legal entity name of AFB to MBSB Bank Berhad ("the Bank"). The transfer of the Identified A&L was implemented through a members' scheme of arrangement pursuant to section 366 of the Companies Act 2016 by way of a Vesting Order dated 28 February 2018 from the High Court of Malaya of which can be completed within 3 years from 2 April 2018.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

53. Significant event (cont'd.)

The Identified A&L comprised the following:

Identified Assets	RM'000
Cash and short-term funds	6,269,184
Financing and advances	30,118,185
	27,853,305
Gross at stage 1	3,060,833
Gross at stage 2	735,137
Gross at stage 3	(523,890)
ECL stage 1	(467,282)
ECL stage 2	(539,918)
ECL stage 3	
Financial investments at FVOCI	3,210,031
Sukuk - SPV Murabahah	3,273,199
Other receivables/other assets	538,017
Financing to subsidiaries	311,386
	514,761
Gross at stage 3	(203,375)
ECL stage 3	
Deposits and placements with financial institutions	54,813
Amount due from Jana Kapital Sdn Bhd	21,915
Financial asset held for sale	18,346
	438
Gross at stage 1	9,752
Gross at stage 2	1,145,206
Gross at stage 3	(21)
ECL stage 1	(1,157)
ECL stage 2	(1,135,872)
ECL stage 3	
Property and equipment	8,999
	79,495
At cost	(70,496)
Accumulated depreciation	
Investment in Jana Kapital Sdn Bhd	*
	43,824,075

* Represents RM2

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

53. Significant event (cont'd.)

The Identified A&L comprised the following (cont'd.):

Identified Liabilities	RM'000
Deposits from customers	31,964,367
Sukuk - MBSB Bank SC Murabahah	2,316,020
Recourse obligation on financing sold	2,175,008
Amount due to SPV	2,811,064
Other payables	464,287
	39,730,746
Net assets transferred	4,093,329

Cash flow effect to the Company from the investment in MBSB Bank Berhad:

	RM'000
Cash and short-term funds transferred by way of a Vesting Order	6,269,184
Purchase consideration satisfied via cash	396,894
Cash flows from investment in MBSB Bank Berhad	6,666,078

The consideration for the above transfer was satisfied by an issuance of 4,093,329,268 new shares by the Bank to the Company.

In conjunction with the First Tranche Transfer, the Sukuk Exchange was also completed following the successful issuance of the Bank's Structured Covered Sukuk (debt nature) in exchange for MBSB Structured Covered Sukuk held by MBSB Sukuk holders. Accordingly, Jana Kapital Sdn Bhd ("JKSB"), the special purpose vehicle for the Sukuk programme, an investment being part of the Identified A&L is now a wholly-owned subsidiary of the Bank.

Subsequent to the First Tranche Transfer and up to the end of the reporting period, the Company has progressively transferred the following assets and liabilities to the Bank:

	RM'000
i) Intangible assets transferred in April 2018	
Cost	99,150
Accumulated amortisation	(74,784)
Net Book Value	24,366
ii) Mortgage converted to property Islamic financing	
Converted on 29 May 2018	248,015
Converted on 24 October 2018	602
Converted on 24 November 2018	84,607
iii) Conventional deposit converted to Islamic deposit on 14 July 2018	20,222

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

54. Comparative information

The following comparative amount have been reclassified to conform with the current year's presentation which more accurately reflect the nature of the relevant transactions. The Group's and the Company's prior financial year's results were not affected by these reclassification.

Group	As previously reported RM'000	Re-classification RM'000	As restated RM'000
<u>Statements of financial position</u>			
Deposits from customers	32,755,137	(7,228,589)	25,526,548
Deposits and placements of banks and other financial institutions	-	7,228,589	7,228,589
	32,755,137	-	32,755,137

Statements of comprehensive income

Income derived from investment of general investment deposits and Islamic capital funds	2,634,924	(212,510)	2,422,414
Income attributable to sukuk	(328,835)	206,160	(122,675)
Interest income	472,333	(44,512)	427,821
Net other income	33,377	47,207	80,584
Other operating expenses	(336,060)	46,260	(289,800)
Impairment allowance	(598,611)	(42,605)	(641,216)
	1,877,128	-	1,877,128

Company	As previously reported RM'000	Re-classification RM'000	As restated RM'000
<u>Statements of financial position</u>			
Deposits from customers	32,755,137	(7,228,589)	25,526,548
Deposits and placements of banks and other financial institutions	-	7,228,589	7,228,589
	32,755,137	-	32,755,137

Statements of comprehensive income

Income derived from investment of general investment deposits and Islamic capital funds	2,549,107	(5,277)	2,543,830
Income attributable to sukuk	(328,835)	(1,073)	(329,908)
Interest income	435,078	(44,512)	390,566
Net other income	26,075	47,207	73,282
Other operating expenses	(316,722)	43,415	(273,307)
Impairment allowance	(606,382)	(39,760)	(646,142)
	1,758,321	-	1,758,321

ANALYSIS OF SHAREHOLDINGS

as at 29 March 2019

Total number of Issued Shares : 6,389,101,298 Ordinary Shares
 Class of Shares : Ordinary Shares
 Voting Rights : One Vote per Ordinary Share

ANALYSIS OF ORDINARY SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
1 - 99	1,336	3.738	43,008	0.000
100 - 1,000	5,296	14.817	4,362,231	0.068
1,001 - 10,000	16,244	45.449	82,047,285	1.284
10,001 - 100,000	11,010	30.804	334,440,727	5.234
100,001 - 319,455,063*	1,854	5.187	1,893,733,052	29.640
319,455,064** AND ABOVE	1	0.002	4,074,474,995	63.772
TOTAL	35,741	100.00	6,389,101,298	100.00

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 Ali	250,366	0.004	-	-	250,366	0.004

Note:

Tan Sri Abdul Halim bin Ali, by virtue of his total direct interests of 250,366 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	535,000	0.008	-	-	535,000	0.008

Note:

Datuk Seri Ahmad Zaini bin Othman, by virtue of his total direct interests of 535,000 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 March 2019

SUBSTANTIAL SHAREHOLDERS

Name	No. of Shares Held	% of Issued Shares
EMPLOYEES PROVIDENT FUND BOARD	4,074,474,995	63.77
TAN SRI DATO' CHUA MA YU	519,863,650	8.137

Notes:

1. Total direct interest of EPF held under Citigroup Nominees (Tempatan) Sdn Bhd
2. Total direct interest of Tan Sri Dato' Chua Ma Yu held under Cimsec Nominees (Tempatan) Sdn Bhd exempt an for CIMB Securities (Singapore) Pte Ltd (Retail Clients) and Maybank Securities Nominees (Tempatan) Sdn Bhd
3. Total indirect interest of Tan Sri Dato' Chua Ma Yu held under Maybank Securities Nominees (Asing) Sdn Bhd, Maybank Kim Eng Securities Pte Ltd for CMY Global Ltd., Maybank Securities Nominees (Tempatan) Sdn Bhd, Pledged Securities Account for CMY Incubator Sdn Bhd, CMY Equity Sdn Bhd and CMY Capital Markets Sdn Bhd

THIRTY LARGEST SHAREHOLDERS

NO	NAME	NO. OF SHARES	% OF SHARES
1	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	4,074,474,995	63.772
2	CIMSEC NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR CGS-CIMB SECURITIES (SINGAPORE) PTE LTD (RETAIL CLIENTS)	183,475,635	2.871
3	MAYBANK SECURITIES NOMINEES (ASING) SDN BHD MAYBANK KIM ENG SECURITIES PTE LTD FOR CMY GLOBAL LTD	130,452,400	2.041
4	RHB NOMINEES (ASING) SDN BHD RUSD INVESTMENT BANK INC.	117,081,144	1.832
5	RHB NOMINEES (ASING) SDN BHD TADHAMON CAPITAL BSC CLOSED	103,441,163	1.619
6	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEGDED SECURITIES ACCOUNT FOR CMY INCUBATOR SDN BHD	91,566,350	1.433
7	PERMODALAN NASIONAL BERHAD	67,022,652	1.049
8	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEGDED SECURITIES ACCOUNT FOR CMY EQUITY SDN BHD	45,500,000	0.712
9	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD YAYASAN HASANAH (AUR-VCAM)	44,000,000	0.688
10	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEGDED SECURITIES ACCOUNT FOR FONG SILING (CEB)	38,000,000	0.594
11	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEGDED SECURITIES ACCOUNT FOR CMY CAPITAL MARKETS SDN BHD	34,000,000	0.532
12	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	32,460,600	0.508
13	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	31,019,494	0.485

ANALYSIS OF SHAREHOLDINGS

as at 29 March 2019

THIRTY LARGEST SHAREHOLDERS (cont'd.)

NO	NAME	NO. OF SHARES	% OF SHARES
14	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HAWANG KIM LIAN	23,450,095	0.367
15	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHUA MA YU	20,000,000	0.313
16	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	19,474,200	0.304
17	CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (VCAM EQUITY FD)	16,000,000	0.250
18	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	15,616,185	0.244
19	B-OK SDN BHD	15,600,025	0.244
20	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHUA MA YU	15,000,000	0.234
21	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DIMENSIONAL EMERGING MARKETS VALUE FUND	13,717,704	0.214
22	AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR CHUNG CHEE YANG (CHU0328C)	13,669,434	0.213
23	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	13,017,707	0.203
24	AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR CHUNG CHEE YANG (CHU0328C)	10,490,196	0.164
25	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HENG TENG KUANG	9,554,517	0.149
26	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEAN SIEW SEE	8,800,000	0.137
27	DB (MALAYSIA) NOMINEE (ASING) SDN BHD DEUTSCHE BANK AG SINGAPORE FOR NIIF PUBLIC EQUITIES	8,526,100	0.133
28	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD CIMB BANK BERHAD (EDP 2)	7,600,088	0.118
29	POSEIDON SENDIRIAN BERHAD	7,373,985	0.115
30	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	7,246,082	0.113
TOTAL SHAREHOLDING OF THE THIRTY LARGEST SHAREHOLDERS		5,217,630,751	81.651

SCHEDULE OF PROPERTIES

No.	Location	Tenure	No. of years	Expiry Date	Land Area (Sq. Metres)	Description	Ages of Building (Years)	Book Value (RM'000)
1	Lot 31632, 31633 and 31634 PM No.416, 417 and 418, Bukit Raja, Mukim of Kapar, District of Klang, Selangor.	Leasehold	99	08.05.2093	42,208.89	Vacant Land	Nil	102,163
2	Lot 353, PN 7164, Kawasan Bandar VIII, District of Melaka Tengah	Leasehold	99	29.08.2074	7,048.10	Hotel	18	44,609
3	A) Lot No. 3077 Title Pajakan Negeri No. 32340, Mukim Pegoh, Alor Gajah, Melaka (phase 2C, A'Famosa resort) B) 65 undeveloped detached house plots of land, Part of Phase 12, A' Famosa Resort Malaysia, Jalan Kemus, Simpang Ampat, Melaka. C) 62 undeveloped detached house plots of land, Part of Phase 8, A'Famosa Resort Malaysia, Jalan Kemus, Simpang Ampat, Melaka	Leasehold	99	18.12.2094	161,106.01	Vacant Land	Nil	35,739
4	3 agricultural lots and 246 building lots, Mukim of Linggi , District of Port Dickson, Negeri Sembilan.	Leasehold	60 (3 lots) 99 (246 lots)	22.12.2046 08.11.2094	2,155,202.84	Vacant Land	Nil	34,961
5	No.48, Jalan Dungun, Damansara Heights, Kuala Lumpur	Freehold	Nil	Nil	1,595.28	Office Building	30	27,606
6	Lot No. 2402 PN 28760 Port Dickson, Negeri Sembilan (No. 325, Batu 1, Jalan Rumah Rehat, Port Dickson)	Leasehold	99	06.10.2095	6,042.00	Hotel	20	17,558
7	8 units of completed shop office at Butterworth - Lot 2622, 2651, 2624, 2653, 2654, 2625, 2676, 2674, 2626, 2655, 2628, 2657, 2629, 2658	Freehold	Nil	Nil	1,040.00	Shop Office	2	12,560
8	Lot 328 Geran 1901 Pekan Klebang Seksyen III, Melaka	Freehold	Nil	Nil	13,557.02	Vacant Land	Nil	5,223
9	Lot 1755 PN No. 39370, Mukim of Bukit Katil, District of Melaka Tengah, Melaka	Leasehold	99	15.07.2095	43,137.00	Vacant Land	Nil	4,640
10	56 Vacant industrial lots located in Mukim of Taboh Naning, Alor Gajah, Melaka	Freehold	Nil	Nil	274,782.68	Vacant Land	Nil	4,630

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 49th ANNUAL GENERAL MEETING (“AGM”) of the Company will be held at Grand Nexus, Level 3A, Connexion Conference & Event Centre @ Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur on Tuesday, 11 June 2019 at 10.00 a.m. for the following purposes:

ORDINARY BUSINESS:

- | | |
|--|--------------------------------------|
| 1. To receive the Audited Financial Statements of the Company and of the Group for the year ended 31 December 2018 and Reports of the Directors and Auditors thereon. | (Please refer to Explanatory Note 1) |
| 2. To declare a Single-Tier Final Dividend of 5.0 sen per ordinary share for the financial year ended 31 December 2018. | Ordinary Resolution 1 |
| 3. To approve payment of Directors’ Fees amounting to RM1,877,013.52 (MBSB : RM839,999.00 and MBSB Bank : RM1,037,014.52) for the financial year ended 31 December 2018. | Ordinary Resolution 2 |
| 4. To approve payment of benefits (excluding Directors’ Fees) payable to Directors from the date of this AGM until the next AGM of the Company in 2020. | Ordinary Resolution 3 |
| 5. To re-elect Ir. Moslim bin Othman who retire in accordance with Article 86 of the Company’s Constitution, and who being eligible offer himself for re-election. | Ordinary Resolution 4 |
| 6. To appoint Messrs. KPMG PLT as Auditors of the Company in place of the retiring auditors, Messrs. Ernst & Young and to authorise the Directors to determine their remuneration. | Ordinary Resolution 5 |

SPECIAL BUSINESS:

To consider and if thought fit, to pass the following resolutions:-

- | | |
|--|-----------------------|
| 7. Authority to allot and issue shares | Ordinary Resolution 6 |
|--|-----------------------|

“THAT subject always to the Companies Act, 2016 (“the Act”), the Constitution of the Company, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and the approvals of the relevant government/regulatory authorities, where such approval is required, the Directors be and are hereby authorised and empowered pursuant to Section 75 of the Act, to allot and issue shares in the Company to such persons, at any time, and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed 10% of the total number of issued shares of the Company for the time being AND THAT the Directors be also empowered to obtain the approval from the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad AND THAT such authority shall continue in force until the conclusion of the next AGM of the Company”.

NOTICE OF ANNUAL GENERAL MEETING

8. Allotment and issuance of new Ordinary Shares in MBSB (“MBSB Shares”) in relation to the Dividend Reinvestment Plan that allows shareholders of MBSB (“Shareholders”) to reinvest their dividend to which the dividend reinvestment plan applies, in new MBSB Shares (“Dividend Reinvestment Plan”).

Ordinary Resolution 7

“THAT pursuant to the Dividend Reinvestment Plan as approved by the Shareholders at the Extraordinary General Meeting held on 10 December 2013, approval be and is hereby given to the Company to allot and issue such number of new MBSB Shares from time to time as may be required to be allotted and issued pursuant to the Dividend Reinvestment Plan until the conclusion of the next Annual General Meeting upon such terms and conditions and to such persons as the Directors, may in their absolute discretion, deem fit and in the interest of the Company PROVIDED:-

- i. THAT the issue price of the said new MBSB Shares shall be fixed by the Directors at a discount of not more than ten percent (10%) to the five (5)-day volume weighted average price (“VWAP”) of MBSB Shares immediately prior to the price-fixing date, of which the VWAP shall be adjusted ex-dividend before applying the aforementioned discount in fixing the issue price.

AND THAT the Directors of the Company be and are hereby authorized to do all such acts and enter into all such transactions, arrangements and documents as may be necessary or expedient in order to give effect to the Dividend Reinvestment Plan with full power to assent to any conditions, modifications, variations and/or amendments to the terms of the Dividend Reinvestment Plan as the Directors may deem fit, necessary and/or expedient in the best interest of the Company or as may be imposed or agreed to by any relevant authorities or consequent upon the implementation of the said conditions, modifications, variations and/or amendments and to take all steps as it considers necessary in connection with the Dividend Reinvestment Plan.”

9. **SPECIAL RESOLUTION:**

To consider and if thought fit, to pass the following special resolution:-

Proposed Adoption of a New Constitution of the Company (Proposed Adoption)

Special Resolution 1

“THAT approval be and is hereby given to revoke the existing Constitution of the Company with immediate effect and in place thereof, the proposed new Constitution of the Company, as set out in Appendix II of the Circular to Shareholders dated 30 April 2019, be and is hereby adopted as the Constitution of the Company.

AND THAT the Board of Directors be and is hereby authorised to do all such acts, deeds and things as are necessary and/or expedient in order to give full effect to the Proposed Adoption with full powers to assent to any conditions, modifications and/or amendments as may be required by any relevant authorities.”

10. To transact any other ordinary business of which due notice shall have been given.

BY ORDER OF THE BOARD

KOH AI HOON (MAICSA 7006997)
TONG LEE MEE (MAICSA 7053445)
Company Secretaries

Kuala Lumpur
30 April 2019

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes: -

1. Item 1 of the Agenda

This Agenda is meant for discussion only, as the provision of Section 340(1)(a) of the Companies Act, 2016 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this Agenda item is not put forward for voting.

2. Item 3 of the Agenda

The details of the Directors fees for financial year ended 31 December 2018 are as follows:-

Board members	MBSB Total (RM)	MBSB Bank Total (RM)
Tan Sri Abdul Halim bin Ali	145,000	128,334
Encik Lim Tian Huat	174,167	-
Ir. Moslim bin Othman	162,916	-
Puan Lynette Yeow Su-Yin	153,749	123,750
Datuk Shahril Ridza Ridzuan (50% Directors' Fees to be paid to EPF) (resigned in MBSB on 20 August 2018)	70,000	-
Datuk Syed Zaid bin Syed Jaffar Albar (resigned in MBSB on 6 February 2018)	19,167	-
Encik Aw Hong Boo (resigned in MBSB on 6 February 2018)	27,500	151,250
Dato' Jasmy bin Ismail (resigned in MBSB on 6 February 2018)	27,500	-
Encik Sazaliza Zainuddin (50% Directors' Fees to be paid to EPF) (resigned in MBSB on 6 February 2018)	20,000	110,000
Datuk Johar bin Che Mat (resigned in MBSB on 6 February 2018)	20,000	148,155.42
Tunku Alina Binti Raja Muhd Alias (resigned in MBSB on 6 February 2018)	20,000	134,167
Datuk Azrulnizam bin Abdul Aziz	-	122,739.42
Dr. Loh Leong Hua (Resigned on 9 February 2018 and reappointed on 1 June 2018)	-	91,904.42
Dato' Dr. Md Khir bin Abdul Rahman (resigned on 9 February 2018)	-	9,714.26
Dato' Dr. Vaseehar Hassan bin Abdul Razack (resigned on 9 February 2018)	-	6,071.42
Encik Abdul Rahim bin Abdul Hamid (resigned on 9 February 2018)	-	6,071.42
Dr. Saleh Jameel Malaikah (resigned on 7 February 2018)	-	2,428.58
Mr. Zakir Hussain Rizvi (resigned on 7 February 2018)	-	2,428.58
TOTAL	839,999	1,037,014.52

NOTICE OF ANNUAL GENERAL MEETING

3. Item 4 of the Agenda

The details of the benefits payable to Directors are as follows:-

Board Meeting Allowance	- RM3,000.00 per meeting
General Meeting Allowance	- RM3,000.00 per meeting
Board Committee Meeting Allowance	- RM2,000.00 per meeting
Any other meeting allowances (where the Directors are invited to attend)	- RM2,000.00 per meeting
Chairman's Car allowance	- RM10,000.00 per month
Other benefits	- medical coverage, travel, communication and other claimable benefits

Note:

- (a) The meeting allowances will be paid to the Directors after the conclusion of each meeting.
- (b) The benefits payable to the Directors comprise allowances and other emoluments payable to the Chairman and member of the Board, Board of Subsidiaries and Board Committees
- (c) The total amount of benefits payable to the Directors is estimated up to RM2,500,000 from date of this AGM until the next AGM in 2020 based on the estimated number of 199 meetings.

4. Item 6 of the Agenda

Messrs. KPMG PLT is the existing auditors of MBSB's subsidiary companies i.e. MBSB Bank Berhad and Jana Kapital Sdn Bhd. The Audit Committee and the Board have considered the efficiency of having only one (1) External Audit firm for MBSB Group and have recommended Messrs. KPMG PLT be appointed as the auditors of MBSB in place of the retiring auditors, Messrs. Ernst & Young for the financial year ending 31 December 2019, subject always to the approval from the Regulators and Shareholders. Messrs KPMG PLT has given their consent to act as statutory auditors of the Company, a copy of which is annexed hereto and marked as "Annexure 1".

5. Item 7 of the Agenda

The proposed Ordinary Resolution 6, if passed, will give powers to the Directors to issue new ordinary shares in the capital of the Company up to an aggregate amount not exceeding 10% of the paid-up share capital of the Company for the time being without having to convene a general meeting. This authority, unless revoked or varied at a general meeting, will expire at the next AGM.

The purpose of the proposed mandate from shareholders is to provide MBSB the flexibility to undertake any share issuance during the financial year that is not material in nature under exceptional circumstances i.e. in the event that any capital management requirement to meet the prudential compliance capital leverage ratio or strategic opportunities involving equity deals which may require the Company to allot and issue new shares on urgent basis and which is only to be undertaken if the Board considers it to be in the best interest of the Company.

NOTICE OF ANNUAL GENERAL MEETING

6. Item 8 of the Agenda

Dividend Reinvestment Plan (“DRP”) is a capital management tool that would strengthen the Company’s capital position. The reinvestment of dividend entitlements by shareholders for new Company shares will enlarge the Company’s share capital and strengthen its capital position for future growth. Under the DRP, the cash that would otherwise be paid out by way of dividend will be preserved to fund the working capital and/or capital funding requirements of the Group and the Company.

The proposed Ordinary Resolution 7, if passed, will empower the Directors of the Company to issue new ordinary shares pursuant to the terms and conditions of the Company’s DRP which are contained in the DRP Statement set out in Appendix I to the Circular to Shareholder dated 25 November 2013 (as may be amended in accordance with the provisions of the said DRP).

The authority conferred by such renewed mandate/authority will be effective from the date of the forthcoming AGM and unless revoked or varied at a general meeting, will expire at the next AGM.

7. Item 9 of the Agenda

This proposed Special Resolution 1 if passed, will give full effect to the Proposed Adoption as set out in Appendix II of the Circular to Shareholders dated 30 April 2019 accompanying the Company’s Annual Report for the financial year ended 31 December 2018.

The Proposed Adoption is undertaken primarily to streamline the Constitution with the Act, which came into effect from 31 January 2017 and other relevant regulatory provisions. The Proposed Adoption is also undertaken to align the Constitution with the Listing Requirements issued by Bursa Securities to provide clarity on certain provisions thereof and to render consistency throughout in order to facilitate and further enhance administrative efficiency.

Notes:-

1. For the purpose of determining a member who shall be entitled to attend this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 58A(2) of the Company’s Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 29 May 2019. Only a depositor whose name appears on the Record of Depositors as at 29 May 2019 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.
2. A member shall be entitled to appoint another person as his proxy. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of a company shall have the same rights as the member to attend, participate, speak and vote at the meeting.
3. In the case of a corporate body, the proxy appointed must be in accordance with its constitution, if any, and the instrument appointing a proxy shall be given under the company’s common seal or under the hand of an officer or attorney duly authorised.
4. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.
5. Where a member of the company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (“omnibus account”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 (“SICDA”) which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
6. To be valid, the duly completed instrument appointing a proxy must be deposited at the Share Registrar’s office at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

Pursuant to Paragraph 8.27(2) of the Main Market Listing
Requirements of Bursa Malaysia Securities Berhad

1. Ir. Moslim bin Othman is standing for re-election at the 49th Annual General Meeting of the Company to be held Grand Nexus, Level 3A, Connexion Conference & Event Centre @ Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Tuesday, 11 June 2019 at 10.00 a.m.
2. The details of Ir. Moslim bin Othman who is standing for re-election at the 49th Annual General Meeting are disclosed under the Directors' Profile on page 14 of this Annual Report.



KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia

Telephone +60 (3) 7721 3388
Fax +60 (3) 7721 3399
Website www.kpmg.com.my

The Board of Directors
Malaysia Building Society Berhad
11th Floor, Wisma MBSB
48 Jalan Dungun, Damansara Heights
50490 Kuala Lumpur

Our ref.: G/CKM/JLCK/yywn

Attention: Tan Sri Abdul Halim Ali

19 March 2019

Dear Sirs

**Malaysia Building Society Berhad
Consent to act as auditors**

We refer to your letter dated 7 March 2019.

Pursuant to the provisions of the Companies Act, we hereby consent to act as statutory auditors of your Company. This consent is to remain valid until it is withdrawn, amended or superseded.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Khaw Hock Hoe', written in a cursive style.

Khaw Hock Hoe
Partner

PROXY FORM



CDS Account No.:	
No. of Shares Held:	

I/We _____ NRIC No. _____

Tel No. _____ of _____

_____ being a member/members of MALAYSIA BUILDING SOCIETY BERHAD hereby appoint

_____ NRIC No. _____

of _____

and/or failing him _____ NRIC No. _____

of _____

or failing him, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Grand Nexus, Level 3A, Connexion Conference & Event Centre @ Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur on Tuesday, 11 June 2019 at 10.00 a.m. and at any adjournment thereof.

For appointment of two proxies, the percentage of shareholdings to be represented by each proxy are as follows:-

	Percentage (%)
First Proxy (1)	
Second Proxy (2)	
Total	100

My/Our proxy to vote as indicated hereunder.

NO.	RESOLUTIONS	FOR	AGAINST
Ordinary Business:-			
1.	To declare a Single-Tier Final Dividend of 5.0 sen per ordinary share for the financial year ended 31 December 2018. Ordinary Resolution 1		
2.	To approve payment of Directors' Fees amounting to RM1,877,013.52 (MBSB : RM839,999.00 and MBSB Bank : RM1,037,014.52) for the financial year ended 31 December 2018. Ordinary Resolution 2		
3.	To approve payment of benefits (excluding Directors' Fees) payable to Directors from the date of this AGM until the next AGM of the Company in 2020. Ordinary Resolution 3		
4.	To re-elect Ir. Moslim bin Othman who retire in accordance with Article 86 of the Company's Constitution, and who being eligible offer himself for re-election. Ordinary Resolution 4		
5.	To appoint Messrs. KPMG PLT as Auditors of the Company in place of the retiring auditors, Messrs. Ernst & Young and to authorise the Directors to determine their remuneration. Ordinary Resolution 5		
Special Business:-			
6.	Authority allot and issue shares. Ordinary Resolution 6		
7.	To allot and issue shares in relation to the Dividend Reinvestment Plan. Ordinary Resolution 7		
8.	Proposed Adoption of a New Constitution of the Company Special Resolution 1		

(Please indicate with an 'x' in the space indicated above as to how you wish to cast your vote. If no specific directions as to voting are given, the proxy shall vote or abstain from voting at his/her full discretion)

Date

Signature of member

Notes:

1. For the purpose of determining a member who shall be entitled to attend this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 58A(2) of the Company's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 29 May 2019. Only a depositor whose name appears on the Record of Depositors as at 29 May 2019 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.
2. A member shall be entitled to appoint another person as his proxy. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of a company shall have the same rights as the member to attend, participate, speak and vote at the meeting.
3. In the case of a corporate body, the proxy appointed must be in accordance with its constitution, if any, and the instrument appointing a proxy shall be given under the company's common seal or under the hand of an officer or attorney duly authorised.
4. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.
5. Where a member of the company is an exempt authorised nominee which holds ordinary shares in the company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorized nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
6. To be valid, the duly completed instrument appointing a proxy must be deposited at the Share Registrar's office at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.

Please fold here

Affix
Stamp

The Share Registrar

Tricor Investor & Issuing House Services Sdn Bhd (11324-H)
Unit 32 - 01, Level 32, Tower A,
Vertical Business Suite, Avenue 3,
Bangsar South, No. 8, Jalan Kerinchi,
59200 Kuala Lumpur

Please fold here

www.mbsb.com.my

MALAYSIA BUILDING SOCIETY BERHAD (9417-K)

11th Floor, Wisma MBSB
No. 48, Jalan Dungun
Damansara Heights
50490 Kuala Lumpur