



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



TEGUH *merintis* MASA

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Masa

annual report 2014



1959, Jalan Leboh Ampang, Kuala Lumpur



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

Your Financial Provider

Strengthen Through Time

annual report 2014



Artist impression of MBSB's
proposed new HQ



MBSB has weathered many storms and triumphed over many trials over the last 64 years. It shall be a great loss to you and me if we do not learn from her past or be inspired by her remarkable achievements.



Dato' Ahmad Zaini bin Othman
President and Chief Executive Officer

Source: MBSB In The News, July - September 2014, Issue 09



Cover Rationale

The cover design celebrates Malaysia Building Society Berhad's 65th anniversary by emphasizing the incredible journey that the company had travelled over the past 65 years. On the cover, is a sepia-toned image of the first HQ in Malaysia contrasting with the new state-of-the-art head office to be completed in 2017. Our corporate slogan **Strengthen Through Time** is proudly displayed in Bahasa Malaysia on the cover, and in English on the inside.

Table of Contents

2	Our Story: Chronology of Key Events
4	Notice of Annual General Meeting
8	Corporate Information
10	MBSB at a Glance
12	Profile of Board Members, President and CEO & Shariah Advisory Committee
26	Chairman's Review & President and CEO's Statement
38	Senior Management Team
43	Regional Managers
44	Branch Network
48	Corporate Highlights
56	Awards and Accolades
58	Statement on Corporate Governance
78	Financial Highlights
82	Corporate Social Responsibility (CSR) Initiatives
86	Statement on Risk Management and Internal Control
92	Report of the Audit Committee
100	Analysis of Shareholdings
104	Schedule of Properties
105	Financial Statements
235	Proxy Form

OUR STORY: CHRONOLOGY OF KEY EVENTS



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 45th ANNUAL GENERAL MEETING (“AGM”) of the Company will be held at Grand Ballroom, Level 2, Pullman Kuala Lumpur Bangsar, No. 1, Jalan Pantai Jaya, Tower 3, 59200 Kuala Lumpur on Wednesday, 15 April 2015 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 2014 and Reports of the Directors and Auditors thereon. **(Please refer to Explanatory Note 1)**
2. To declare the following:-
 - (i) A Single-Tier Final Dividend of 10.0 sen per ordinary share of RM1.00 each for the financial year ended 31 December 2014; and **Ordinary Resolution 1**
 - (ii) A Single-Tier Special Dividend of 2.0 sen per ordinary share of RM1.00 each for the financial year ended 31 December 2014. **Ordinary Resolution 2**
3. To approve payment of Directors’ Fees amounting to RM760,000.00 for the financial year ended 31 December 2014. **Ordinary Resolution 3**
4. To re-elect the following Directors who retire in accordance with Article 86 of the Company’s Articles of Association and who being eligible offer themselves for re-election:-
 - (i) Datuk Shahril Ridza bin Ridzuan **Ordinary Resolution 4**
 - (ii) Encik Aw Hong Boo **Ordinary Resolution 5**
5. To consider and if thought fit, to pass the following resolution in accordance with Section 129 (6) of the Companies Act, 1965:-

“That Tan Sri Abdul Halim bin Ali, retiring pursuant to Section 129 (6) of the Companies Act, 1965, be re-appointed as a Director of the Company to hold office until the next Annual General Meeting.”

Ordinary Resolution 6
6. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to determine their remuneration. **Ordinary Resolution 7**

Special Business:

To consider and if thought fit, to pass the following resolutions:-

7. Authority to Directors to issue shares

**Ordinary
Resolution 8**

"THAT subject always to the Companies Act, 1965, the Company's Articles and Association and approval of the relevant government / regulatory authorities, the Directors be and are hereby authorized pursuant to Section 132D of the Companies Act, 1965, to issue shares in the Company at any time until the conclusion of the next Annual General Meeting 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 issued share capital of the Company for the time being."

8. Allotment and issuance of new Ordinary Shares of RM1.00 each 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 9**

"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 the issue price shall not be less than the par value of MBSB Shares of RM1.00 each at the material time.
- ii. 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. 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

24 March 2015

Explanatory Notes:-

1. Item 1 of the Agenda

This Agenda is meant for discussion only, as the provision of Section 169(1) of the Companies Act, 1965 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 7 of the Agenda

The proposed Ordinary Resolution 8, 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 issued and 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 Annual General Meeting.

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.

3. 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 9, 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.

NOTICE OF ANNUAL GENERAL MEETING

Notes:-

1. For the purpose of determining a member who shall be entitled to attend this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 58A(2) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 8 April 2015. Only a depositor whose name appears on the Record of Depositors as at 8 April 2015 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.
2. A proxy need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. 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 speak at the meeting.
3. In the case of a corporate body, the proxy appointed must be in accordance with its Memorandum & Articles of Association 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 Company's registered office at 11th Floor, Wisma MBSB, 48 Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur 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. Directors who are standing for re-election at the 45th Annual General Meeting of the Company to be held at Grand Ballroom, Level 2, Pullman Kuala Lumpur Bangsar, No. 1, Jalan Pantai Jaya, Tower 3, 59200 Kuala Lumpur on Wednesday, 15 April 2015 at 10.00 a.m. are as follows:-
 - i. Datuk Shahril Ridza bin Ridzuan
 - ii. Encik Aw Hong Boo
 - iii. Tan Sri Abdul Halim bin Ali
2. The details of the above Directors who are standing for re-election at the 45th Annual General Meeting are disclosed under the Directors' Profile on pages 14-17 of this Annual Report.



Corporate Information

*1950, The Federal and Colonial Building Society Limited Headquarters,
MacDonald House, Orchard Road, Singapore*

CORPORATE INFORMATION

Chairman

Tan Sri Abdul Halim bin Ali
Non-Independent Non-Executive Director

President and

Chief Executive Officer

Dato' Ahmad Zaini bin Othman

Board of Directors

Datuk Syed Zaid bin Syed Jaffar Albar
Non-Independent Non-Executive Director

Datuk Shahril Ridza bin Ridzuan
Non-Independent Non-Executive Director

Encik Aw Hong Boo
Senior Independent Non-Executive Director

Dato' Jasmy bin Ismail
Independent Non-Executive Director

Encik Lim Tian Huat
Independent Non-Executive Director

Cik Ravinder Kaur a/p Mahan Singh
Independent Non-Executive Director

Shariah Advisory Committee

Dr. Luqman bin Haji Abdullah
Dr. Marjan binti Muhammad
Assoc. Prof. Dr. Abdul Karim bin Ali
Dr. Rushdi bin Ramli
Dr. Sa'adan bin Man
Assoc. Prof. Dr. Zurina binti Shafii

Company Secretaries

Koh Ai Hoon (MAICSA 7006997)
Tong Lee Mee (MAICSA 7053445)

Registrar

Tricor Investor & Issuing House
Services Sdn Bhd (formerly known as
Equiniti Services Sdn Bhd) (11324-H)
Level 17, The Gardens North Tower
Mid-Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Tel: 03 - 2264 3883
Fax: 03 - 2282 1886

Bankers

RHB Bank Berhad
Malayan Banking Berhad
Affin Bank Berhad

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)

MBSB AT A GLANCE

MBSB History in Brief

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



MBSB Historical Highlights

- MBSB was granted with an exemption under Section 7(4) of the Borrowing Companies Act 1969 (BCA).
- As a result of the change from BCA to the 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.

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

MBSB has evolved in its role from being the first property financier to a financial provider that offers a spectrum of innovative products and services throughout its branch network nationwide.

MBSB is an Exempt Finance Company

MBSB was defined as a Scheduled Institution under the repealed Banking and Financial Institution Act 1989 (BAFIA).

The status of an Exempt Finance Company was granted to MBSB on 1 March 1972 by the Ministry of Finance and the status has remained since. This allows MBSB to undertake a financing business in the absence of a banking licence.

Under Section 272 (a) of the Financial Services Act 2013 (FSA), exemptions granted under the BAFIA are deemed to have been granted under the corresponding provision of the FSA 2013 and shall remain in full force and effect until amended or revoked.



PROFILE OF BOARD MEMBERS



From left to right:

Encik Lim Tian Huat
Independent Non-Executive
Director

Dato' Jasmy bin Ismail
Independent Non-Executive
Director

**Datuk Syed Zaid bin Syed
Jaffar Albar**
Non-Independent
Non-Executive Director

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



**Datuk Shahril Ridza
bin Ridzuan**
Non-Independent
Non-Executive Director

Encik Aw Hong Boo
Senior Independent
Non-Executive Director

**Cik Ravinder Kaur
a/p Mahan Singh**
Independent Non-Executive
Director

**Dato' Ahmad Zaini
bin Othman**
President and Chief Executive
Officer



TAN SRI ABDUL HALIM BIN ALI

Chairman

Non-Independent Non-Executive
Director

Tan Sri Abdul Halim bin Ali, a Malaysian, aged 71, was appointed as Chairman of MBSB on June 22, 2001. He is also the Chairman of the Executive Committee of MBSB.

He received his early education at the Sultan Abdul Hamid College, Alor Setar. In 1959, he continued his studies at the Royal Military College, Sg. Besi, Selangor and he completed his tertiary education at the University of Malaya graduating with a B.A. (Hons) in History in 1965.

Entering the Malaysia Civil Service in 1966, he joined the Ministry of Foreign Affairs where he held several domestic and overseas postings until his appointment in 1979, as the Malaysia Deputy Permanent Representative to the United Nations. From 1982 until 1985, he served as the Malaysian Ambassador to Vietnam. On his return to Malaysia, he was appointed as Deputy Secretary General III (Administration) of the Ministry of Foreign Affairs. He then served as the Malaysian Ambassador to Austria from 1988 until 1991. From 1991 until 1996, he was the Deputy Secretary General I (Political Affairs) until his promotion in 1996 to Secretary General of the Ministry of Foreign Affairs.

Shortly thereafter, in September 1996, Tan Sri Abdul Halim bin Ali was appointed as the Chief Secretary of the Government, the highest ranking post in the Malaysian Civil Service and was responsible for overseeing and coordinating the policies of the government and their implementation. He retired in March 2001, at which time he was made Chairman of the Employees Provident Fund, a post he held until 31 January 2007.

He is the Chairman of the Multimedia Development Corporation, Universiti Teknologi Malaysia, IJM Corporation Berhad and Sedania Innovator Berhad. He is also the Director of Petron Malaysia Refining & Marketing Berhad.



DATUK SYED ZAID BIN SYED JAFFAR ALBAR

Non-Independent Non-Executive Director

Datuk Syed Zaid bin Syed Jaffar Albar, a Malaysian, aged 60, was appointed as an Independent Non-Executive Director on August 14, 2002. He was appointed Senior Independent Non-Executive Director on 7 February 2013 and was redesignated as Non-Independent Non-Executive Director on 22 April 2014. He serves as a Member of the Executive Committee, the Nominating & Remuneration Committee and the Option Committee.

Datuk Syed Zaid Albar holds a degree in law from the UK and is a qualified Barrister-at-Law, Lincoln's Inn. He was called to the Malaysian Bar as an advocate and solicitor of the High Court of Malaya in 1980 and has been in active legal practice ever since. Presently, he is the managing partner of an established law firm in Kuala Lumpur. Currently, Datuk Syed Zaid Albar also holds other directorships in public companies namely Malaysian Pacific Industries Berhad and Narra Industries Berhad.



DATUK SHAHRIL RIDZA BIN RIDZUAN

Non-Independent Non-Executive Director

Datuk Shahril Ridza bin Ridzuan, a Malaysian, aged 44, was appointed as a Non-Independent Non-Executive Director on November 30, 2011. He serves as a Member of the Executive Committee and the Audit Committee.

Datuk Shahril holds a Bachelor of Civil Law (1st Class) from Oxford University, England and a Master of Arts (1st Class) from Cambridge University, England.

Datuk Shahril started his career with Messrs Zain & Co as Legal Assistant from 1994 to 1996. He then joined Trenergy (M) Berhad/Turnaround Managers Inc (M) Sdn Bhd as Special Assistant to the Executive Chairman in 1997. He subsequently joined Pengurusan Danaharta Nasional Berhad, where he served until 1999. He was appointed as an Executive Director of SSR Associates Sdn Bhd in 1999 and held the position until August 2001.

Datuk Shahril was then appointed to the Board of Malaysian Resources Corporation Berhad on 9 August 2001. He served as the Group Managing Director of the Company from 1 September 2003 to 1 December 2009. He is presently the Chief Executive Officer of the Employees Provident Fund.

Datuk Shahril is currently a Director of Media Prima Berhad, Malaysian Resources Corporation Berhad and Pengurusan Danaharta Nasional Berhad.

PROFILE OF BOARD MEMBERS



ENCIK AW HONG BOO

Senior Independent Non-Executive Director

Encik Aw Hong Boo, a Malaysian, aged 65, was appointed as an Independent Non-Executive Director on November 18, 2005. He was redesignated as Senior Independent Non-Executive Director on 22 April 2014. He is the Chairman of the Audit Committee, the Nominating & Remuneration Committee and the Option Committee. He also serves as a Member of the Risk Management Committee.

He is a member of the Malaysian Institute of Certified Public Accountant (MICPA), the Malaysian Institute of Accountants (MIA) and a Fellow of the Institute of Chartered Accountants in England & Wales (ICAEW).

Encik Aw began his career in 1970 as an Audit Senior in London and later with Ernst & Whinney (now known as Ernst & Young), an international public accounting firm in Singapore and London from 1974 – 1977. He served in RHB Bank Berhad for 21 years between 1978 to 1999, holding various senior managerial positions in financial management, banking, finance and leasing. He was Senior General Manager of Branch Network and Risk Management before his optional retirement in November 1999.

Encik Aw is also a Director of Quill Capita Management Sdn Bhd, the Manager of Quill Capita Trust.



DATO' JASMY BIN ISMAIL

Independent Non-Executive Director

Dato' Jasmy bin Ismail, a Malaysian, aged 51, was appointed as a Non-Independent Non-Executive Director on August 11, 2009 and was redesignated as Independent Non-Executive Director on 26 February 2013. He serves as a Member of the Executive Committee and the Risk Management Committee.

He obtained his Chartered Institute of Transport in United Kingdom and MSc in Transport Management from City University, London. In 1988, Dato' Jasmy joined IBM Malaysia and held various positions within the Sales and Marketing organization, responsible mainly for the Public Sector and Financial Service Industries. Prior to leaving IBM Malaysia, he was the Executive Assistant to the Chief Executive Officer of IBM Malaysia.

Dato' Jasmy joined CCAAP Technologies Sdn Bhd ("CCAAP") as General Manager in 1996. He was also the Executive Director of New Technology & Innovation Sdn Bhd.

In 2000, Dato' Jasmy co-founded Symphony Global Technologies Sdn Bhd and was involved in the formulation of Symphony House Berhad which was then listed on Bursa Malaysia Securities Berhad in 2003. He was the Chief Executive of Symphony's Technology Services Division. He also served as the Chairman of Symphony BCSIS Sdn Bhd, a joint-venture company with OCBC Singapore's subsidiary BCSIS and held the position until 2007. He is presently the Chief Executive of SGT International Sdn Bhd.

Dato' Jasmy is a Director of TSH Resources Berhad and several other private limited companies. He is also an appointed Council Member of Badminton Association of Malaysia.



ENCIK LIM TIAN HUAT

Independent Non-Executive Director

Encik Lim Tian Huat, a Malaysian, aged 60, was appointed as an Independent Non-Executive Director on April 4, 2011. He is the Chairman of the Risk Management Committee and also serves as a Member of the Audit Committee, the Nominating & Remuneration Committee and the Option Committee.

Encik Lim is the Managing Partner of Rodgers Reidy & Co., Chartered Accountants and a licensed auditor and liquidator. He was previously a partner of Ernst & Young from 2002 to 2009, and prior to that, partner of Arthur Andersen & Co. from 1990 to 2002.

He has also served as Commissioner to the United Nations Compensations Commission and as member of the Corporate Law Reform Committee (CLRC) under the purview of the Companies Commission of Malaysia. He co-authored a book entitled "The Law and Practice of Corporate Receivership in Malaysia and Singapore".

Encik Lim is the founding President of the Insolvency Practitioners Association of Malaysia (IPAM). He is a member of the Malaysian Institute of Accountants, Member of the Malaysia Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. He holds a degree in BA (Honours) in Economics.

Encik Lim is a Director of UEM Sunrise Berhad and PLUS Malaysia Berhad. He is also a Director of Perbadanan Insurans Deposit Malaysia and Bank Yingkou, China.



CIK RAVINDER KAUR A/P MAHAN SINGH

Independent Non-Executive Director

Cik Ravinder Kaur a/p Mahan Singh, a Malaysian, aged 54, was appointed as an Independent Non-Executive Director on June 5, 2013. She serves as a Member of the Executive Committee and Risk Management Committee.

Cik Ravinder Kaur attended the MBA programme from Manchester Business School, United Kingdom and earned a BA Honours in Asean Studies (Diplomatic Services Module) from University of Malaya, Kuala Lumpur. She has about 23 years of experience in the banking and finance sector and has held senior management positions in the areas of corporate banking, asset management, private equity and financial consultancy.

Cik Ravinder Kaur started her career with Malayan Banking Berhad in 1984. In 1996, Cik Ravinder Kaur joined the management team of Sime Bank Berhad, a subsidiary of Sime Darby Berhad. Sime Bank Berhad was later acquired by RHB Bank Berhad in 1998. In 2004, she was recruited by Citibank Berhad to head their Global Relationship Banking (GRB) to handle its relationships with multinational corporations.

Cik Ravinder Kaur later joined Equity Ventures Pte Ltd, Singapore in 2006. Her responsibilities were to manage and coordinate the private equity initiatives and responsibilities within the firm.

She is now involved in providing financial restructuring services to companies and advisory services to foreign investors and training in strategy, client relationship management and account management.

PROFILE OF PRESIDENT AND CHIEF EXECUTIVE OFFICER

DATO' AHMAD ZAINI BIN OTHMAN
President and Chief Executive Officer



Dato' Ahmad Zaini bin Othman, a Malaysian, aged 58, was appointed the President and Chief Executive Officer of MBSB on February 26, 2009.

After his early education in Malaysia, Dato' Ahmad Zaini obtained his Higher National Diploma (HND) in Accounting in Manchester, England. He continued his tertiary education in the USA where he graduated with a BSc in Finance from the University of Southern Illinois, after which he obtained an MBA (Finance) at the University of St. Louis.

In 1984, upon his return to Malaysia, he began his career in Merchant Banking with Bumiputra Merchant Bankers dealing with Corporate Banking, Syndications and Project Finance. In 1988 he took up the position of Head of Corporate Finance for Intradagang Merchant Bankers where he organized Malaysia's largest ever project finance exercise for Perwaja Steel, in which he spent a brief stint as Senior General Manager/Director Corporate Finance.

He returned to the banking sector in 1995 to take up the position of Head/Senior General Manager, Corporate Banking for Ambank, specializing in Islamic Banking and Finance. He managed all corporate banking matters including commercial project/corporate banking.

In 2004 he was made CEO of Amlslamic Bank managing all the group's affairs pertaining to Islamic Banking in commercial and corporate finance and was responsible for setting up the Islamic Business Model for the group. In August 2011, Dato' Ahmad Zaini was appointed as an Accreditation Panel Member of the Asian Institute of Finance.

In August 2014, Dato' Ahmad Zaini received the "Asia Pacific Outstanding Entrepreneurship Award 2014" from the Enterprise Asia. The award recognizes talented young entrepreneurs to experienced industrialists who are considered pioneers in their respective fields.

He is also a member of the Association of Chartered Islamic Finance Professionals (ACIFP). In recognition of his contributions to Islamic banking he was appointed a faculty member (Industry expert) to the International Centre for Education in Islamic Finance (INCEIF).

Notes:

1. **Family relation with Director and/or substantial shareholder**
The Directors and President and CEO do not have any family relationship with any directors and/or major shareholders of MBSB other than Tan Sri Abdul Halim bin Ali and Datuk Shahril Ridza bin Ridzuan who are nominees of Employees Provident Fund Board (EPF).
2. **Conflict of Interest**
All the Directors and President and CEO do not have any conflict of interest with MBSB.
3. **Conviction of Offences**
All the Directors and President and CEO have not been convicted for any offences within the past ten years other than traffic offences, if any.
4. **Attendance of Board Meetings**
The number of Board meetings attended by the Directors during the financial year ended 31 December 2014 is disclosed in the Statement of Corporate Governance in pages 60-61 of this Annual Report.

PROFILE OF SHARIAH ADVISORY COMMITTEE (SAC)



DR. LUQMAN BIN HAJI ABDULLAH
Chairman, Shariah Advisory Committee

Dr. Luqman Bin Haji Abdullah, born in 1969, currently serves as a lecturer at University of Malaya (UM). He graduated with a Degree B.Is (Hons) in Shariah from University of Malaya in 1993. He obtained his Ph.D (Islamic Law of Property) at Edinburgh University, Scotland in 2005. He also serves as a Committee Member of Scholars and Fatwa for Kelantan Islamic Religious Council and Chairman, Board of Trustees, Center for Development of Pondok Studies Ltd (Kelantan) and was a visiting Scholar in 2013 at University of Edinburgh, Scotland.

Besides being an advisor, he is also involved in various social activities. He also currently serves as Chairman of Madrasah Rahmaniah Pondok Lubuk Tapah, Pasir Mas, Kelantan, Chairman of Association of Malaysian Muslims Scholar (Federal Territory), Panelist of Pakar Syariah, JAKIM and Committee Member of Intellectuals and Professionals, Association of Malaysia Muslims Scholars. His areas of specialization are Islamic Law of Property, Islamic Jurisprudence/Legal Theories and Shariah/Fiqh Textual Studies (Dirasah Nassiyyah).



ASSOC. PROF. DR. ABDUL KARIM BIN ALI
Member, Shariah Advisory Committee

Dr. Abdul Karim bin Ali, born in 1966, serves as an Associate Professor for Department of Fiqh and Usul, Academy of Islamic Studies at University of Malaya (UM). He obtained his degree in Shariah from University of Malaya in 1990 and doctoral degree (Ph.D) from University of Edinburgh, Scotland in 1996. Dr. Abdul Karim is an active member in a number of research committees at the University Malaya.

His areas of specialization are Principles of Islamic Jurisprudence, Fiqh Textual Studies, History of Islamic Law and Sciences of Hadith. Previously, he was appointed as Head of Department Fiqh & Usul, Academy of Islamic Studies, UM. He is actively involved in Muslim Scholar Association.



DR. MARJAN BINTI MUHAMMAD
Member, Shariah Advisory Committee

Dr. Marjan binti Muhammad, born in 1975, is currently the Director of Research, Research Affairs Department at the International Shariah Research Academy for Islamic Finance (ISRA). She obtained her Master and Doctoral degrees in Islamic Revealed Knowledge and Heritage (Fiqh and Usul al-Fiqh) at the International Islamic University Malaysia (IIUM), after graduating from the same university in 1998 for her Bachelor degree.

Prior to joining ISRA, she was a tutor at the Faculty of Law and Shariah, Islamic Science University of Malaysia (USIM). She also taught at the Matriculation Centre, International Islamic University Malaysia on a part-time basis. Her areas of specialization are Issues of Ijtihad (Intellectual Reasoning), Islamic Jurisprudence (Usul al-Fiqh), Islamic Laws of Transaction (Fiqh al-Muamalat) and Islamic Criminal Laws (Fiqh al-Jinayah).

PROFILE OF SHARIAH ADVISORY COMMITTEE (SAC)



DR. SA'ADAN BIN MAN

Member, Shariah Advisory Committee

Dr. Sa'adan Bin Man, born in 1969, serves as a lecturer at the University of Malaya (UM), Department of Fiqh and Usul, Academy of Islamic Studies. He obtained his Doctoral degree in Islamic Law at Edinburgh University, United Kingdom in 2004 after graduating from the University of Malaya (UM) in Shariah for his Bachelor Degree (B.Sy First Class Hons). He served as a Visiting Scholar at Edinburgh University in 2013.

His areas of specialization are Contemporary Fiqh, Principles of Islamic Jurisprudence, Islamic Consumerism, Fiqh Al-Ibadat, Fiqh Al-Ikhtilaf and Islamic Astronomy. Previously, he was appointed as Head of Department Fiqh & Usul, Academy of Islamic Studies, UM. He is also appointed as an external auditor for Malaysian Qualifications Agency (MQA) as well as JAKIM's Expert Panel for Falak and Advisory Committee for Malaysia Halal Certification. He intensively leads several research projects in his area of expertise and presents papers on his specialization on various conferences at both national and international levels.



DR. RUSHDI BIN RAMLI

Member, Shariah Advisory Committee

Dr. Rushdi Bin Ramli, born in 1966, currently serves as a lecturer at Department of Fiqh and Usul, Academy of Islamic Studies, University of Malaya (UM). He graduated with a Degree B.Is (Hons) in Shariah from University of Malaya. He obtained his Master and Doctoral Degrees (Ph.D) at Birmingham University, United Kingdom. He was also a consultant in religious matters in the Non-Governmental Organization "Dewan Pemuda Masjid Malaysia" from 2007 to 2009.

Presently he is one of the panelist for the preparation of the draft "Law of Sihr" under JAKIM. He is also a representative for "Persatuan Kebajikan dan Pengubatan Islam Darussyifa" at the Traditional and Complementary Medicine Division, Ministry of Health, Malaysia. He was also one of the panelists in preparing the draft for the Code of Ethics for Islamic Medicine at the Ministry of Health. His areas of specialization are Principles of Islamic Jurisprudence, Principle of Quranic Exegesis, Contemporary Fiqh and Principles of Islamic Medication (prophetic medicine).



ASSOC. PROF. DR. ZURINA SHAFII

Member, Shariah Advisory Committee

Dr. Zurina Shafii, born in 1977, is a lecturer in the Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia (USIM) and a research fellow in Islamic Finance and Wealth Management Institute (IFWMI), a research Centre of Excellence in USIM. She holds an Accounting Degree from Universiti Teknologi Mara (UiTM) and a Master's degree and PhD in Islamic Finance from Durham University, UK. She holds professional accounting qualification, ACCA and a Certified Islamic Financial Planner. She is one of the Accreditation Panel for Finance Accreditation Agency (FAA), an agency under Bank Negara Malaysia.

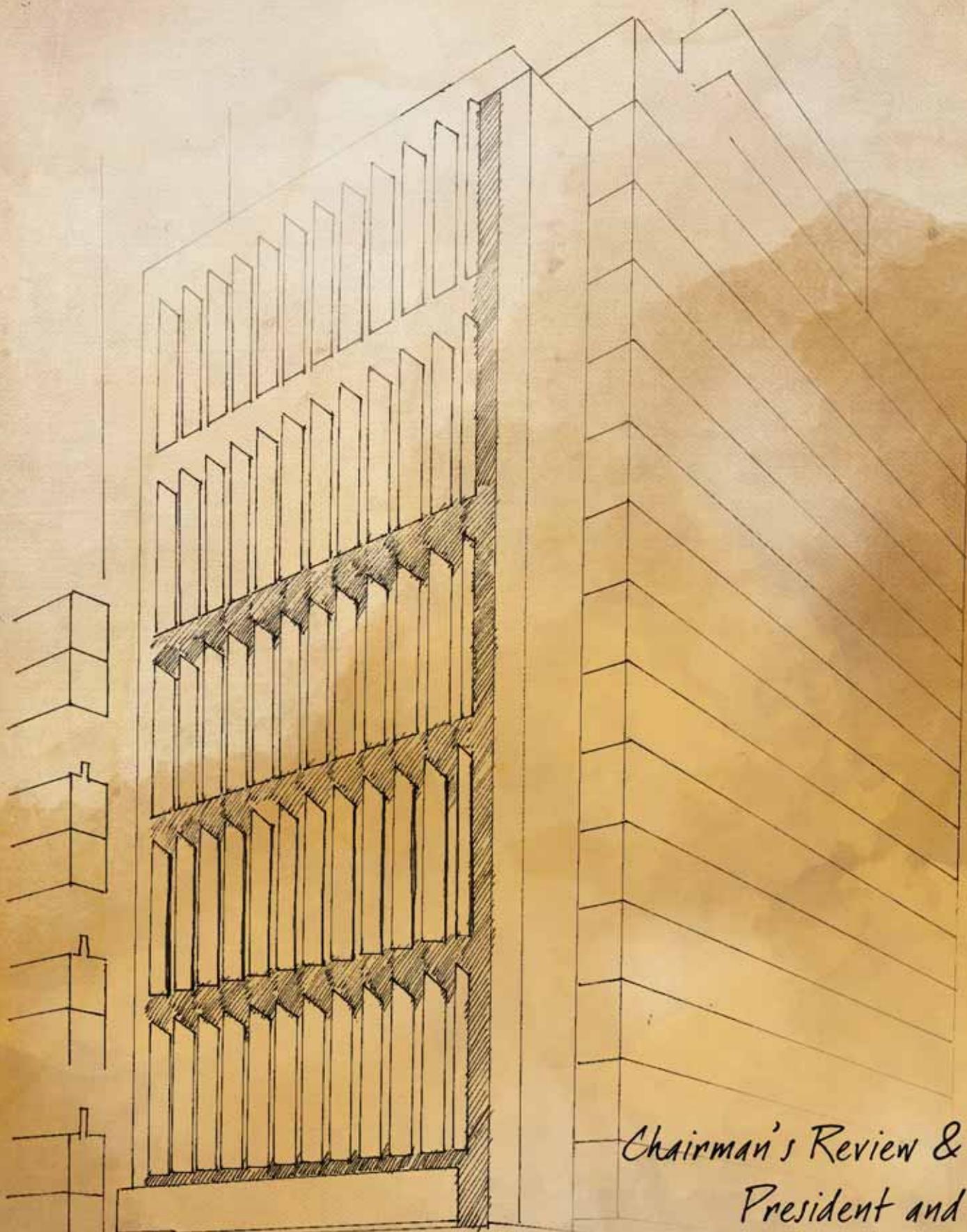
Her research interests are Shariah audit, Islamic financial institutions' reporting, Islamic financial planning and Halal Compliance Procedures. In addition to several research grants she received from Ministry of Higher Education (MOHE), she is a recipient of grants from the industry in Shariah audit and reporting of Islamic financial transactions. She co-authored two books on Islamic financial planning published by IBFIM and a book titled

'Governance and Shariah Audit in Islamic Financial Institution' published by Penerbit USIM.

She won some recognition for her innovation on Shariah audit, namely a bronze medal for Shariah Audit Kit in PECIPTA 2013 and a silver medal for Shariah Audit Step by Step Procedures in ITEX 2012. In 2014 and 2015, she was a visiting researcher in Durham University Business School (Durham University, UK), Islamic Research Training Institute (IRTI) of Islamic Development Bank (IDB) in Jeddah and Institute of Islamic Economics and Finance of World Bank in Istanbul during her sabbatical leave from USIM.

She is active in community activities especially in Islamic financial planning training. She is the Chairman for Education Committee for a Non-Governmental Organisation (NGO), Association for Islamic Financial and Wealth Management Malaysia (AIFIWM). She is from Perlis.

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MBBS

*Chairman's Review &
President and
CEO's Statement*

1958, The Penang Branch, Penang

CHAIRMAN'S REVIEW



Tan Sri Abdul Halim bin Ali
Chairman

Dear Shareholders

On behalf of the Board of Director's (Board) of Malaysia Building Society Berhad (MBSB), I am pleased to present the Annual Report and Audited Financial Statements (Annual Report) for the twelve (12) months of financial year ended 31 December 2014 (FYE 2014).

REVIEW OF FINANCIAL PERFORMANCE

MBSB recorded a healthy **Group Profit Before Tax (PBT)** of RM 932.6 million for FYE 2014, consistent with the record results registered for the preceding year 2013 of RM932.3 million. The Company secured an exceptional **Profit After Tax (PAT)** of RM 1.0 billion due to the recognition of deferred tax assets.

Overall, this is an impressive development for the Company, having gone through a demanding period last year. The business environment had been tough for the industry following the tighter lending criteria to curtail household debt, as evidenced by the banking industry's slight moderation in growth from 10.6% in 2013 to 8.7% for 2014. The total loans achieved in the banking system amounted to RM1.33 trillion.

MBSB recorded a healthy Group Profit Before Tax (PBT) of RM 932.6 million for FYE 2014, consistent with the record results registered for the preceding year 2013 of RM932.3 million.

As at 31 December 2014, the **Net Loans, Financing and Advances** for MBSB stood at RM31.0 billion, which was a marginal increase of 2.4% from RM30.3 billion (FYE 2013). The growth was partly contributed by the expansion in corporate financing segment, especially in property development financing, taking advantage of the favorable conditions in the construction sector. Loans extended by the banking industry for this sector grew significantly by 15.6%.

Group Revenue rose by 3.0% from RM2.5 billion (FYE 2013) to RM2.6 billion. The rise in revenue remained largely contributed by the existing retail financing portfolio due to our effective customer retention strategies. Meanwhile, the **Group's Net Non-Performing Loan (NPL)** ratio showed improvements as well with the ratio trending downwards from 5.4% (FYE 2013) to 4.1% (FYE 2014). We had already moved towards the industry's NPL classification of three months in arrears (3 MIA) beginning early 2014 from the previous six months in arrears (6 MIA). We shall continue with the adoption of these higher standards to close the gap, to be in line with the best banking practices.

Capital and liquidity programs had been effectively managed to support the growth of financing assets. In the last quarter of 2014, MBSB had undertaken two securitization exercises, with Cagamas Berhad on home financing assets amounting to RM1.0 billion and the issuance of 2nd tranche Structured Sukuk Commodity Murabahah backed by financing receivables of RM700 million. Total deposit level had declined marginally by 2.3% to RM27.5 billion from RM28.2 billion (FYE 2013) due to stiff competition towards the end of the year.

CHAIRMAN'S REVIEW

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) practices have been ingrained within MBSB, sustained by effective CSR initiatives, focusing on the areas of community and workplace improvement. The Company continues to support the three flagship CSR programmes initiated several years ago namely Over the Top-PINTAR School Adoption Program, Program Sejahtera and MBSB Home Safety Campaign.

The **Over the Top-PINTAR School Adoption Program**, focuses on efforts to impart the learning and teaching of English to primary school children and teachers. This is done by conducting workshops and motivation-based courses at all six adopted schools nationwide.

Under the **Home Safety Campaign**, MBSB actively disseminates information on the importance of home safety measures. Safety demonstrations by PDRM and Fire Brigade were organised at seven Projek Perumahan Rakyat (PPR) within Klang Valley.

"Program Sejahtera MBSB" was initiated with the objective of assisting the poor in meeting their basic needs, including provision of simple homes or repair of their existing houses.

At the workplace, we continue to assist our employees to improve themselves by providing them with financial aid and incentives to further their education. These incentives are also extended to their children. In addition, voluntary programmes, such as the Blood Donation Drive and the Soup Kitchen for the urban poor, were also undertaken with the support of our employees, thus nurturing among them the spirit of giving and helping others.

These are all part of our employee engagement initiatives and to assess the level of their engagement, we had conducted an Employee Engagement Survey last year. A high of 93% of our employees nationwide participated in the survey and the outcome was commendable. The results show that 92% of MBSB's employees are engaged and this achievement is markedly higher than four external benchmarks. This admirable score is a sign of highly committed and engaged employees who are willing to go the extra mile for the Company and we believe it also has a correlation with our business performance.

DIVIDENDS

The Board has proposed that a Special Dividend of 2% per share in addition to the Final Dividend of 10% per share in respect of FYE 2014 be paid, subject to the shareholders' approval at the forthcoming Annual General Meeting.

Based on the number of shares in issue of 2,711,277,238 shares as at 6 February 2015, the final dividend payable under the proposal would amount to approximately RM 325.4 million. The total dividend for FYE 2014 would represent a 32.1% payout for the 2014 Group PAT.

The results show that 92% of MBSB's employees are engaged and this achievement is markedly higher than four external benchmarks.

PROSPECTS

We foresee 2015 to be potentially another challenging year for the Malaysian economy. Real GDP growth is projected to moderate, depending on the magnitude of fluctuations in crude oil prices and also movements of the ringgit exchange rate against currencies of Malaysia's major trading partners.

Amidst these concerns, we intend to employ appropriate new strategies to achieve sustainable growth so that we can continue providing reasonable returns to our shareholders. These strategies include further strengthening of the company's capital and liquidity management while concurrently ensuring the funding costs are kept to a minimum, targeting financing growth in certain areas and improvements in operational efficiency to reduce our cost of doing business.

ACCOLADES AND ACKNOWLEDGMENTS

In recognition of our innovative approach and remarkable performance, the company had received several awards and accolades in 2014. They included:-

- the New Structured Finance Benchmark Deal and Outstanding Deal of the Year 2013 by RAM League Awards 2013, in recognition for MBSB's World's First Structured Covered Sukuk Commodity Murabahah program backed by Islamic personal-financing receivables. The first tranche of this program was also awarded with the Structured Finance Deal of the Year 2013 Award by The Islamic Finance News.
- the Asset Asian Awards 2014 (Triple A) for Best Islamic Structured Financing, Best Deal Malaysia and Best Local Currency Sukuk categories.
- the 'Most Profitable Company' and 'Highest Profit Growth Company' for Finance Sector by The Edge Billion Ringgit Club 2014 award series. MBSB had been recognized and awarded in different categories by the award series for four consecutive years.

- Brand Laureate Best Brand Signature Award under the Category Financial Services 2013/2014.
- the "Best Companies to Work for in Asia 2014 Awards" received from HR Asia Journal.

We congratulate the President and Chief Executive Officer (PCEO), Dato' Ahmad Zaini Othman for receiving the "Asia Pacific Outstanding Entrepreneurship Award 2014" from the Enterprise Asia. The award recognizes talented and dynamic entrepreneurs to experienced industrialists who are considered pioneers in their respective fields.

We are greatly encouraged by this recognition and with the continuing trust and support from our shareholders and customers, we will intensify our efforts to enhance the performance and strengthen the position of the Company even further. As we celebrate the Company's 65th anniversary this year, we have every confidence that with the valuable experience and expertise gained through all those years, we will realise the objective we have set to achieve.

Once again, on behalf of the Board, I would like to extend our sincere appreciation to all our shareholders for the confidence and support extended to MBSB, which had enabled us to deliver a remarkable performance.

To our clients, business associates, partners, thank you for your continuous collaboration, co-operation and support, all of which are essential for the growth of MBSB. Further, my sincere appreciation also goes to my fellow Board members, Shariah Advisory Committee members and all our dedicated staff who have played their respective roles in taking MBSB to the Next Level.

Thank you.

Tan Sri Abdul Halim bin Ali

Chairman

27 February 2015

PRESIDENT AND CEO'S STATEMENT



Dato' Ahmad Zaini bin Othman
President and Chief Executive Officer

Dear Shareholders

Having reached 65 years of establishment this year, we are ever grateful to the Almighty Allah s.w.t. to have weathered the challenging times and yet remained resolute to this day. We take pride in MBSB's strong heritage and shall continue to reinforce our standing in the local financial industry. It is important that we achieve this position through a strengthened financial performance and growth in the Company's value.

We are pleased to inform that we have remained steadfast in our dedication to provide sustainable value and consistent level of returns to our shareholders. In 2014, we achieved in building consistent earnings' growth and subsequently, were able to deliver exceptional shareholders' returns albeit in a highly challenging business environment. The financial year ended 31 December 2014 (FYE2014) saw another year of robust financial performance of the Group and its Profit Before and After Tax levels.

Our achievements were principally attributed to three key areas - the expansion of corporate business, the retention of existing retail financing assets and the improvements in operational efficiency and governance, including the strengthening of our Risk Management and Compliance frameworks. The Group's sturdy set of results is a reflection of our decisive, disciplined and focused approach in sustaining the Company's earnings.

The Group's sturdy set of results is a reflection of our decisive, disciplined and focused approach in sustaining the Company's earnings.

Financial Review

The **Group Profit Before Tax** for FYE 2014 is recorded at RM932.6 million, a similar feat achieved in the preceding financial year 2013. The **Group Revenue** grew marginally by 3.0%, mainly contributed by the existing retail financing assets which stood at RM29.0 billion.

We are also pleased to report that the **Group Profit After Tax** crossed a historic RM1.0 billion mark principally due to the recognition of deferred tax assets of RM366 million. This is an exceptional sum recorded, having factored in all amounts due under such item for FYE 2014.

On key financial indicators, the Group secured an impressive Return on Equity (ROE) of 29.5% and Return on Assets (ROA) of 2.7%, outperforming the industry average of 13.8% and 1.2% respectively. Our Cost to Income ratio remained amongst the lowest in the industry at 22.4% in comparison to the industry average of 46.8%. These accomplishments are significant in providing a sustainable level of returns to our shareholders.

PRESIDENT AND CEO'S STATEMENT

Business Expansion Efforts

Retail Segment

We recognize that the business environment had been demanding for the whole industry particularly in the retail financing segment. This is more evident for the **personal financing-i** business. Nonetheless, we continued to provide a one-day turnaround time for personal financing-i customers at selected branches nationwide. We wish to also report that the progress made in the property development financing market has helped to provide us with the end financing or **home financing** submissions. This was further supported with the offering of low financing rates allowing our marketing teams to compete effectively with their counterparts. As a result, the financing acceptance for home financing increased by 40.5% from FYE 2013.

For the **auto finance** segment which entered its third year of business in 2014, we continued to expand our sales force in line with the extension of the sales hubs. We had established two more sales hubs with one in Kulai Jaya, Johor and another in Butterworth, Penang. This brings the total auto finance hubs to six nationwide. Plans are underway to establish more hubs in the future.

Our **wealth management** business also gained momentum as new recruits were hired and existing sales force were trained and certified to allow for cross selling of products. In 2014, a total of 179 marketing personnel had obtained the qualifications to sell Bancassurance and Takaful products. It remained our key retail strategy to intensify efforts in improving the Company's fee based income.

We also launched four campaigns last year to promote our retail products and this was further facilitated by robust advertising and promotional initiatives.

Corporate Segment

Last year saw more aggressive efforts exerted in the market penetration for the corporate segment. We pushed the business momentum carrying forward over RM5.0 billion in financing stock. More deals were secured as we took advantage of the growth in the construction sector through property development financing and contract financing.

The corporate business teams were also expanded to accelerate business growth and to support two new units namely Plantation Financing and Equipment Financing Units. All these initiatives had ended in a higher disbursement achieved of close to RM2.4 billion, an increase of 42.4% from RM1.7 billion (FYE 2013). We registered an asset growth of 34.8% for corporate financing and this had partly contributed to the growth in **Net loans, advances and financing** which stood at RM31.0 billion as at 31 December 2014 from RM30.3 billion (FYE 2013). To date, the corporate financing assets account for 10.9% of our total net loans, advances and financing.

Charting new growth areas is also a key element to our transformation program. To further widen our net in the corporate segment, a Commercial Business and Bumiputra Development Division was established last year to capture and service smaller sized corporates, currently untapped by our existing corporate teams. The new business arm shall also focus on deserving and qualified Bumiputra companies to nurture and develop them into becoming competitive and financially strong entities. They will have to go through a selection process where key criteria will have to be fulfilled in order to be eligible. As a Government-linked company (GLC), it is a duty of the Company to assist the Government in its Bumiputra development agenda.

As a start, we have established a vendor financing program with allocated funding of RM1.5 billion with three major GLCs. This strategic collaboration benefits all parties where the GLCs as paymasters or contract awarders can be assured of the financial strength of their Bumiputra vendors with the financing support extended by MBSB.

Operational Highlights

Governance and Compliance

As part of the Company's strategic initiative, we have largely completed the necessary groundwork and processes to meet the required banking standards. These include uplifting the operational standards and enhancing business capabilities as well as training our personnel on Islamic Banking, a move which began more than two years ago. This is towards preparing MBSB with future opportunities and to ensure that the Company's competitiveness level is matched with that of the industry.

We have also established Shariah audit, Shariah risk and Shariah compliance functions within the Internal Audit, Group Risk Management and Compliance Divisions and have hired the required talents in order to perform these new functions. Various initiatives were also carried out by both Compliance and Group Risk Management to enhance the Company's policies and procedures and to ensure its compliance with banking and other relevant regulations. Amongst them include the emplacement of a Business Continuity Planning, the appointment of Risk Representatives companywide, compliance with Foreign Account Tax Compliance Act (FATCA) and Personal Data Protection Act (PDPA). A Project Steering Committee (PSC) was also established to ensure the Company's system and operational readiness in applying the Goods and Service Tax (GST) on all its transactions.

We have always viewed the importance of offering exceptional value to our customers and this becomes increasingly essential in the presently competitive environment.

Operational Support

We have always viewed the importance of offering exceptional value to our customers and this becomes increasingly essential in the presently competitive environment. Premised on the Ekspres Tunai Centres that could deliver a one-day turnaround time for personal financing-i applications, three of these centres have been converted to Retail Credit Units to process home financing applications as well, servicing our customers at the Regions. Such initiative shall greatly facilitate our retail marketing teams in securing the end-financing deals made available from our bridging finance projects.

In order to effectively support the expansion plans in corporate business, we have reorganized the Credit Management into Retail Credit and Corporate Credit headed by two senior personnel. This permits better management of the corporate financing accounts as well as setting clear demarcation on the responsibilities and accountabilities.

PRESIDENT AND CEO'S STATEMENT

Year 2014 also saw the increase in manpower recruitment for our sales force and key support divisions such as Corporate Credit and Project Management and Monitoring Divisions. However, in line with the declining personal financing-i submissions, we had decided to discontinue the services of 140 temporary personnel in the Retail Credit Division. As at 31 December 2014, MBSB has in employment over 1,500 personnel.

Our endeavor to maintain healthy and quality financing assets also persisted in order to meet the industry's standards. Beginning January 2014, we began classifying the accounts of three months in arrears (3 MIA) as Non-Performing Loan/Financing (NPLF) in line with the industry's best practice as opposed to the previous six months in arrears (6 MIA). Notwithstanding this, based on a 3 MIA classification, we were able to improve the Company's net NPLF from 5.4% (FYE 2013) to 4.1% (FYE 2014). Our recovery and collection initiatives include a more stringent performance monitoring of our outsourcing partners, the expansion of collection workforce and agents nationwide and reassigning the Early Care Unit from Retail Credit to Retail Collection and Management Division.

Further to this, we have also begun adopting higher impairment standards last year and shall emplace a two-year impairment program on the affected assets.

These efforts gave rise to the number of new accounts, bringing in new deposits amounting to over RM1.2 billion.

Funding & Deposit

In strengthening the Company's liquidity and liability programs, we undertook two securitization exercises resulting in additional funding of RM1.7 billion. We have also broadened our clientele base and networking to secure new corporate depositors while largely retaining the existing ones. These efforts gave rise to the number of new accounts, bringing in new deposits amounting to over RM1.2 billion.

Concurrently, in order to secure a new retail segment, we have also launched a Kids Fun Branch, an extension to the offering of our children's Cheeky Savings Account. Being the first of its kind in the country, it is hoped that this shall attract the interests of our young savers and generate the desired low cost funds. A special roadshow was also conducted to over 270 schools and kindergartens nationwide to inculcate good savings habit and to create the awareness of our Cheeky Savings Account as permitted by the Ministry of Education. All our retail deposit initiatives led by the 46 branches nationwide were greatly supported by a total of six deposit campaigns held last year.

As at 31 December 2014, our deposit level stood at RM27.5 billion while the total gross loans/financing to deposit securitization ratio at 104.7%. The Group's deposit level decreased slightly by 2.3% due to the expected stiff competition towards the end of the year.

Going Forward

In summary, we went through a relatively difficult period last year and the economic landscape has also changed drastically towards the end of the year. Unfortunately, the latter also became the main reason for the cessation of a merger negotiation between MBSB, RHB Capital Berhad and CIMB Group Berhad for the creation of a mega Islamic Bank.

We had considered the creation of a mega Islamic Bank to be an excellent opportunity and was also a testament of the prominent value and strength of MBSB. The merger discussions did consume substantial management time for most of the second half of 2014. Nonetheless, we had ensured that at the same time, our formulated strategies remained executed so as not to derail the Company from its path. In the event a favorable outcome did not materialize.

Moving into the new financial year 2015, it may be yet another challenging one as the local economy faces the weakening of Malaysia's Ringgit and the fluctuations of global oil prices. We will take into account of these factors including the operating and regulatory circumstances as we navigate and prepare the Company to operate within these environments.

We have put in motion a new five-year Business Plan 2015-2019 as we concluded our successful six-year transformation program which comprised of change, development and innovation. **"Propelling MBSB Further and Beyond"** shall chart the next phase of the Company's journey.

We aim to sustain the Company's profitability level and shareholders' returns by undertaking key and effective strategies. These include taking advantage of new corporate segments, maintaining asset quality and ensuring that our funding costs and cost to income ratio are further improved.

Concurrently, we shall continue to change and progress towards attaining banking standards on all fronts. With all these emplaced, hopefully we can achieve the desired results.

Acknowledgement

I wish to take this opportunity to express my sincere appreciation to our shareholders and business partners for their continued vote of confidence and support.

Special thanks to our Board and SAC members for their wisdom and leadership. Heartfelt gratitude also goes to MBSB management and employees for their dedication, commitment and tireless efforts in achieving the Company's aspirations. Great strategies, substantial support and confidence of our stakeholders and partners serve as the cornerstone to our growth and achievements. But as far as we have come, there is so much more that we can do to achieve greater heights for our shareholders, customers and business associates.

We remain focused and committed to achieve the Company's aspirations and Inshaallah, shall deliver a sustainable and successful future for the Company.

Thank you.

Dato'Ahmad Zaini bin Othman

President and Chief Executive Officer

27 February 2015



Senior Management Team

1985, Wisma MBSB Damansara Heights, Kuala Lumpur

MANAGEMENT TEAM



From left to right:

Azman bin Aziz
Senior Vice President
Retail Business

Nor Azam bin M. Taib
Senior Vice President
Corporate Business

Asrul Hazli bin Salleh
Senior Vice President
Group Treasury

MANAGEMENT TEAM



Azlina bt Mohd Rashad
Senior Vice President
Corporate Planning &
Communication



Nur Zarina bt Ghazali
Senior Vice President
Wholesale Financing



Norhayati bt Mohd Daud
Deputy Senior Vice President
Commercial Business &
Bumiputera Development

MANAGEMENT TEAM



From left to right:

Lim Seong Soon
Chief Risk Officer

Tang Yow Sai
Chief Financial Officer

Mohd Rozali bin Idris
Deputy Senior Vice President
Corporate Credit Management

MANAGEMENT TEAM



Kamarudin bin Samsudin
Chief Internal Auditor



Hazim bin Dato' Yahya
Deputy Senior Vice President
Project & Property Management



Tina Koh Ai Hoon
Company Secretary

MANAGEMENT TEAM



1



2



3



4



5



6



7



8

1. **Abd Rahim bin Ahmad**
Vice President
Human Capital
2. **Adzamimah bt Adzmi**
Vice President
Compliance

3. **Salim Yazan bin Gulzar Mohamed**
Vice President
Organization & Methods
4. **Sheela Thaver**
Deputy Vice President
Legal
5. **Stanley Hoong Yik Miin**
Deputy Vice President
Branch Network & Retail Deposit
6. **Chong Yiow Loong**
Deputy Vice President
Retail Credit Management
7. **Mohd Zulkiflee bin Mohd Jaafar**
Deputy Vice President
Retail Collection & Management
8. **Nor'aini bt Harun**
Assistant Vice President
Corporate Recovery & Project
Rehabilitation

REGIONAL MANAGERS



1. **Morshidi bin Hj. Abong**
Regional Manager
(Sarawak)

2. **Zamzuri Izani bin Abu Hassan**
Regional Manager
(East Coast)

3. **Nasir bin Marob**
Regional Manager
(Southern)

4. **Fred Lee Thiam Sin**
Regional Manager
(Northern)

5. **Faraheeda bt Ahmad Rejab**
Regional Manager
(Central)

6. **Ridwan bin Tenriranran**
Regional Manager
(Sabah)

BRANCH NETWORK

SALES AND SERVICE CENTRES

NORTHERN

Penang

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

Ipoh

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

Alor Setar

1578, Jalan Kota,
05000 Alor Setar, Kedah.
Tel : 04 - 7314655
Fax : 04 - 7317996

Kangar

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

Sg. Petani

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

Butterworth

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

Sitiawan

Ground & 1st Floor,
No. 35, Persiaran PM 3/2
Pusat Bandar Sri Manjung,
Seksyen 3,
32040 Sri Manjung, Perak.
Tel : 05 - 6882700
Fax : 05 - 6882703

Kulim

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

Taiping

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

Langkawi

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

CENTRAL

Damansara

Ground Floor, Wisma MBSB,
48, Jalan Dungun,
Damansara Heights,
50490 Kuala Lumpur.
Tel : 03 - 20963333
Fax : 03 - 20963376

Kuala Lumpur

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

Petaling Jaya

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

Klang

33, Jalan Tiara 3,
Bandar Baru Klang,
41150 Klang, Selangor.
Tel : 03 - 33426822
Fax : 03 - 33411410

Batu Caves

Ground Floor,
No. 16G, Prima Samudera,
Jalan Samudera Utara 11,
68100 Batu Caves, Selangor.
Tel : 03 - 61777956
Fax : 03 - 61772404

Cheras

185, Jalan Sarjana,
Taman Connaught,
56000 Cheras, Kuala Lumpur.
Tel : 03 - 91322955
Fax : 03 - 91322954

Bandar Baru Bangi

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

Puchong

1-G-1, Ground Floor,
Tower 1 @ PFCC,
Jalan Puteri 1/2,
Bandar Puteri,
47100 Puchong, Selangor.
Tel : 03 - 80635208
Fax : 03 - 80635867

Shah Alam

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

Kelana Jaya

A-1-11 & A-2-11, Blok A,
Plaza Glomac,
Jalan SS7/19, Kelana Jaya,
47301 Petaling Jaya, Selangor.
Tel : 03 - 78830089
Fax : 03 - 78830120

Putrajaya

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

Wangsa Maju

Ground Floor & 1st Floor,
No. 52, Jalan Wangsa Delima 6,
Pusat Bandar Wangsa Maju,
53300 Kuala Lumpur.
Tel : 03 - 41421292
Fax : 03 - 41421269

SALES AND SERVICE CENTRES

CENTRAL	SOUTHERN	EAST MALAYSIA
<p>Kajang No. 21G, 21A & 21B, Jalan S10/2, Seksyen 10, Off Jalan Bukit, 43000 Kajang, Selangor. Tel : 03 - 8733 6720 Fax : 03 - 8733 6746</p> <p>IOI Mall, Puchong Lot EF21 & EF22, First Floor, IOI Mall, Bandar Puchong Jaya, 47100 Puchong, Selangor. Tel : 03 - 8070 1406 Fax : 03 - 8070 0902</p>	<p>Melaka No. 203 & 204, Jalan Melaka Raya 1, Taman Melaka Raya, 75000 Melaka. Tel : 06 - 2828255 Fax : 06 - 2847270</p> <p>Johor Bahru 1st & 2nd Floor, Bangunan KWSP, Jalan Dato' Dalam, 80000 Johor Bahru, Johor. Tel : 07 - 2238977 Fax : 07 - 2240143</p> <p>Seremban No. S-1, Kompleks Negeri, Jalan Dato' Bandar Tunggal, 70000 Seremban, Negeri Sembilan. Tel : 06 - 7638455 Fax : 06 - 7630701</p> <p>Tebrau No. 17 & 17-1, Jalan Mutiara Emas 9/3 Austin Boulevard, Taman Mount Austin, 81100 Johor Bahru, Johor. Tel : 07 - 3581700 Fax : 07 - 3581703</p> <p>Batu Pahat No. 28 & 29, Jalan Persiaran Flora Utama, Taman Flora Utama, 83000 Batu Pahat, Johor. Tel : 07 - 4316614 Fax : 07 - 4317382</p> <p>Muar No. 30A-2, Jalan Arab, 84000 Muar, Johor. Tel : 06 - 9532000 Fax : 06 - 9533200</p>	<p>Kluang No. 6, Lot 9053, Jalan Hj Manan, 86000 Kluang, Johor. Tel : 07 - 7717585 Fax : 07 - 7726572</p> <p>Kulaijaya No. 19, Jalan Sri Putra, Bandar Putra, 81000 Kulai, Johor. Tel : 07 - 6633458 Fax : 07 - 6633284</p> <p>Keningau Ground Floor & 1st Floor, Lot No. 7, Block A, Keningau Plaza, 89000 Keningau, Sabah. Tel : 087 - 337611 Fax : 087 - 337617</p> <p>Kota Kinabalu (Main) Lot 144, Q6 Block Q, Lorong Plaza Permai 1, Alamesra-Sulaman Coastal Highway, 88450 Kota Kinabalu, Sabah. Tel : 088 - 485680 Fax : 088 - 485620</p>
<p>EAST COAST</p> <p>Kemaman K10723, Taman Chukai Utama, Fasa 4, Jalan Kubang Kurus, 24000 Kemaman, Terengganu. Tel : 09 - 8589486 Fax : 09 - 8589291</p> <p>Kuala Terengganu No. 1A, Jalan Air Jernih, 20300 Kuala Terengganu, Terengganu. Tel : 09 - 6227844 Fax : 09 - 6220744</p> <p>Kuantan No. A157 & A159, Sri Dagangan, Jalan Tun Ismail, 25000 Kuantan, Pahang. Tel : 09 - 5157677 Fax : 09 - 5145060</p>	<p>EAST MALAYSIA</p> <p>SABAH</p> <p>Kota Kinabalu Lot 11 & 12, Ground Floor, Block C, Lintasjaya Uptownship, 88300 Kota Kinabalu, Sabah. Tel : 088 - 722500 Fax : 088 - 713503</p> <p>Sandakan Lot 201, Prima Square, Phase 3, Jalan Utara, 90000 Sandakan, Sabah. Tel : 089 - 223400 Fax : 088 - 223544</p> <p>Tawau Ground & 1st Floor, TB 15590, Block B, Lot 45, Kubota Square, 91000 Tawau, Sabah. Tel : 089 - 755400 Fax : 089 - 749400</p>	<p>Labuan Lot 25 Block B Jalan OKK, Abdullah, Lazenda Centre, 87013 Labuan, Wilayah Persekutuan Labuan. Tel : 087 - 440141 Fax : 087 - 440144</p> <p>SARAWAK</p> <p>Kuching Tingkat Bawah & Satu, Bangunan Tunku Muhammad Al-Idrus, 439, Jalan Kulas Utara 1, 93400 Kuching, Sarawak. Tel : 082 - 248240 Fax : 082 - 248611</p> <p>Miri No. 1115, Ground Floor, Pelita Commercial Centre, 98000 Miri, Sarawak. Tel : 085 - 424400 Fax : 085 - 424141</p>

BRANCH NETWORK

REPRESENTATIVE OFFICE

EAST MALAYSIA

Sibu

Ground Floor, SL 166 Lorong,
Pahlawan 7B3,
Jalan Pahlawan,
96000 Sibu, Sarawak.
Tel : 084 - 210703
Fax : 084 - 210714

Bintulu

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

Mukah

Ground Floor & 1st Floor,
Sub Lot 77, Lot 927,
New Mukah Town Centre,
Jln Green, Block 68,
96400 Mukah, Sarawak.
Tel : 084 - 874262
Fax : 084 - 874259

NORTHERN

Parit Buntar

No. 36A, 1st Floor,
Jalan Bestari,
Pusat Bandar Fasa II,
34200 Parit Buntar, Perak.
Tel : 05 - 7162128
Fax : 05 - 7161890

SOUTHERN

Segamat

No. 31, 1st Floor,
Jalan Kampong Genuang,
85000 Segamat, Johor.
Tel : 07 - 9311672
Fax : 07 - 9311687

EAST COAST

Kota Bharu

Lot 364, 1st Floor,
Wisma Watan,
Jalan Sultan Yahya Petra,
15000 Kota Bharu, Kelantan.
Tel : 09 - 7418620
Fax : 09 - 7418619

Tanah Merah

Pt. 177, 1st Floor,
Jalan Hospital,
17500 Tanah Merah, Kelantan.
Tel : 09 - 9551697
Fax : 09 - 9551701

EAST MALAYSIA

Sarikei

No. 33B, 1st Floor,
Jalan Abdul Rahman,
96100 Sarikei, Sarawak.
Tel : 084 - 659417
Fax : 084 - 654417



Corporate Highlights

2012, Puchong Sales & Service Centre, Selangor

CORPORATE HIGHLIGHTS

JANUARY



24 January 2014

Dato' Ahmad Zaini and the Management Team kicked off the MBSB Soup Kitchen Programme 2014



29 January 2014

Dato' Ahmad Zaini announcing MBSB's highest pre-tax profit of RM932.3 million for FYE 31 Dec 2013 during MBSB 4Q Analyst Briefing and Press Conference at Sime Darby Convention Centre

FEBRUARY



19 February 2014

MBSB awarded with the 'Structured Finance Deal of the year-MBSB RM495 million Covered Sukuk Commodity Murabahah' (First Tranche) at The Islamic Finance News Awards Ceremony



28 February 2014

MBSB Sports Club launched its football club "MBSB FC"

APRIL



20 April 2014

MBSB and Cagamas inked an Agreement For Purchase With Recourse Scheme at Sime Darby Convention Centre, Kuala Lumpur



17 April 2014

Staff supporting the Blood Donation Drive

APRIL



22 April 2014

MBSB 44th Annual General Meeting held at Sime Darby Convention Centre



29 April 2014

En Nasir Marob, Southern Regional Manager presenting token of appreciation to Headmaster of SK Parit Penghulu, Melaka during the PINTAR disengagement ceremony

MAY



5 May 2014

Dato' Ahmad Zaini Othman with Senator Datuk Seri Abdul Wahid Omar, Minister of Prime Minister Office during RAM League Awards 2014 at Shangri-La Hotel, Kuala Lumpur

CORPORATE HIGHLIGHTS

MAY



11 May 2014

MBSB brings children from an orphanage during a Charity Musical Theatre 'Di Bawah Lindungan Kaabah' at Istana Budaya



15 May 2014

MBSB reports Pre-Tax Profit of RM267 Million for the first quarter of 2014



28 May 2014

MBSB & Aspen Group entered into a historic agreement of Islamic financial facilities to fund Penang's first privately initiated affordable housing project



29 May 2014

The Management Team received multiple awards from The Asset ASIAN Awards at Kuala Lumpur



30 May 2014

Dato' Ahmad Zaini Othman received 'The Brand Laureate Best Brand Signature Award' under the Category Financial Services 2013/2014 at Kuala Lumpur



31 May 2014

MBSB Sports Club successfully organized the 'MBSB Sports Festival 2014'

JUNE



6 June 2014
The Grand Launch of MBSB Kids Fun Branch at IOI Mall Puchong, Selangor



14 June 2014
MBSB organized a 'Home Safety Campaign' at Pangsapuri Sri Penara, Bandar Sri Permaisuri, Kuala Lumpur

JULY



5 July 2014
Majlis Iftar MBSB with the underprivileged at Sime Darby Convention Center, Bukit Kiara, Kuala Lumpur



10 July 2014
MBSB hosted a Media Iftar at One World Hotel, Petaling Jaya



11 July 2014
Townhall Meeting hosted by Dato' Ahmad Zaini at Penthouse, Wisma MBSB



21 July 2014
MBSB Volunteers distributing new t-shirts to the homeless community at Jalan Tunku Abdul Rahman, Kuala Lumpur

AUGUST



11 August 2014

Dato' Ahmad Zaini Othman receiving multiple awards from Deputy Prime Minister, Tan Sri Muhyiddin Yassin during 'The Edge Billion Ringgit Club Dinner 2014' at Hilton Kuala Lumpur



7 August 2014

Rumah Terbuka MBSB at Dorsett Grand, Subang Jaya, Selangor



14 August 2014

MBSB announces positive second quarter results during the Analyst Briefing at Le Meridien Kuala Lumpur

AUGUST



20 August 2014

Mr Tang Yow Sai receiving 'Best Companies to Work for in Asia 2014' Award organized by HR Asia Journal at Sheraton Imperial Kuala Lumpur



24 August 2014

Residents of Projek Perumahan Rakyat Jinjang Utara, Kuala Lumpur taking part in a safety demonstration by the Fire Brigade during one of MBSB's Home Safety Campaign



28 August 2014

Corporate Communications Manager, Pn Zuhaznim Izzuddin, handing over contribution from MBSB to Pn Megawati Md Rashidi, General Manager of Communications & Fundraising of Mercy Malaysia



28 August 2014

Dato' Ahmad Zaini Othman won 'The Asia Pacific Entrepreneurship Awards 2014' for Outstanding Category at Grand Hyatt Kuala Lumpur

CORPORATE HIGHLIGHTS

SEPTEMBER



10 September 2014

En Nadzli Suhaimi, Assistant Vice President, Human Capital Division receiving a token of appreciation from Pusat Pungutan Zakat – Majlis Agama Islam Wilayah Persekutuan at Majlis Penghargaan Majikan 2014

OCTOBER



9 October 2014

Second session of Townhall Meeting hosted by Dato' Ahmad Zaini Othman at Wisma MBSB

NOVEMBER



3 November 2014

MBSB third quarter results ended September 2014 rose 24.1% in the corresponding period last year



28 November 2014

Media Prima personality, Maria Tunku Sabri entertaining the crowd at MBSB booth during Karnival Jom Heboh in Alor Setar, Kedah

DECEMBER



18 December 2014

'Majlis Penyerahan Kunci Projek Pembangunan Semula Bandar Salak Perdana' at Sepang, Selangor



6 December 2014

MBSB Annual Dinner 2014 with the theme 'The Great Gatsby:Black & Gold' at Kuala Lumpur Convention Center



20 December 2014

Members of Kick Start Team demonstrated self-defense techniques to residents of Flat Desa Mentari, Kuala Lumpur during MBSB Home Safety Campaign

AWARDS AND ACCOLADES



▲ The BrandLaureate Awards 2013/2014
Best Brand Signature Award
(Category Financial Services 2013/2014)



▲ IBFIM Islamic Finance Talent
Development Champion Award



▲ The Asia Pasific Entrepreneurship
Awards 2014
Outstanding Category



▶ HR Asia Awards
Best Companies to Work For
in Asia 2014

IFR Asia Awards 2014
Islamic Issue of the Year



Asset ASIAN Awards 2014 (Triple)

- Best Islamic Structured Financing
- Best Deal Malaysia
- Best Local Currency Sukuk



RAM League Awards 2014
(Blueprint Award)

- New Structured - Finance Benchmark Deal
- Outstanding Deal of The Year



The EDGE Billion Ringgit Club 2014

- 'Most Profitable Company' for Finance Sector
- 'Highest Profit Growth Company' for Finance Sector

STATEMENT ON CORPORATE GOVERNANCE

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

In addition, the Board also considers and adopts where appropriate, the principles and best practices of corporate governance as prescribed in the Malaysian Code of Corporate Governance 2012 ("Code") and those outlined by other regulatory bodies such as Bank Negara Malaysia's guidelines on Corporate Governance save for one of the recommendations that the tenure of an Independent Director should not exceed a cumulative tenure of 9 years.

The Board is pleased to report to shareholders the manner in which it has applied the Principles of the Code and the extent to which it has complied with the Best Practices of the Code, pursuant to Paragraph 15.25 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") and Corporate Governance Guide : Towards Boardroom Excellence throughout the Financial Year 2014.

Malaysia Building Society Berhad's ("MBSB") record of excellence in Corporate Governance has led it to a long-term sustainable financial performance and has attained substantial profit growth.

A. BOARD OF DIRECTORS

Board Charter

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

The Board Charter is a dynamic document and will be updated from time to time to reflect changes to the Company's policies, procedures and processes as well as amended rules and regulations of the relevant authorities.

The Board Charter also includes the terms of reference and the authority limits for the Board and its Committees and the various relevant internal policies.

Duties and Responsibilities of the Board

The Board's statutory and fiduciary duties include responsibilities to approve and periodically review the overall business strategies and significant policies of the Company and the Group.

The primary responsibilities of the Board are, amongst others, the following:-

- i) Review and approve strategies, business plans and significant policies and monitor management's performance in implementing them;
- ii) Overseeing the conduct of the Company's business;
- iii) Set corporate values and clear lines of responsibility and accountability that are communicated throughout the organization;
- iv) Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures;
- v) Succession planning;
- vi) Ensure competent management;
- vii) Ensure that the operations of the Company are conducted prudently, and within the framework of relevant laws and policies;
- viii) Ensure that the Company establishes comprehensive risk management policies, processes and infrastructure, to manage the various types of risks;

- ix) Set up an effective internal audit department, staffed with qualified internal audit personnel to perform internal audit functions, covering the financial and management audit;
- x) Establish procedures to avoid self-serving practices and conflicts of interest including dealings of any form with related entities;
- xi) Reviewing the adequacy and the integrity of the management information and internal controls system of the Company;
- xii) Establish and ensure the effective functioning of various board committees;
- xiii) Overseeing the development and implementation of a shareholder communications policy for the Company; and
- xiv) Ensure that the Company has a beneficial influence on the economic well-being of its community.

Directors' Code of Ethics

The Company has established the Directors' Code of Ethics which was adopted from the recommended Code of Ethics for Directors issued by the Companies Commission of Malaysia. The Directors observe the Code of Ethics in performance of their duties and they fully subscribe to highly ethical standards and take into account the interest of all stakeholders.

Composition of the Board / Board Balance

The Board currently comprise of seven (7) Directors of whom four (4) are Independent Non-Executive Directors and three (3) are Non-Independent Non-Executive Directors.

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

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

The diversity of skill, experience and knowledge of its members in various disciplines and professions allows the Board to address and/or to resolve the various issues in an effective and efficient manner. The brief description of the background and experience of each of the Board members is contained in the Directors' Profile section of this Annual Report.

The number of Board members is also in line with the guidelines for enhancing board effectiveness contained in "The Green Book".

The Board recognises the challenges in achieving the right balance of diversity on the Board to form a highly effective Board in today's competitive business environment. Diversity is not limited only to gender, but includes ethnicity and age.

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

The Board has not set a specific gender diversity target at this time. Nonetheless, the appointment of a female director to the Board of MBSB reflects that the Board recognises the value of gender diversity in the Board and was an initial step taken by the Board towards achieving a more gender diversified Board.

In respect of ethnic diversity, the ethnicity of the Board members is reflective with the three major ethnic groups in Malaysia. The Board is also composed of Directors in varying ages, ranging from 44 to 71 years old.

STATEMENT ON CORPORATE GOVERNANCE

Board Meetings

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

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

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

The Board met twenty-two (22) times during the financial year ended 31 December 2014. There were also two (2) Special Board Meetings which were only attended by the Independent Non-Executive Directors and also the Non-Interested Directors.

The details of each of the Directors' attendance are given as below:

i) Board Meetings

Name of Director	Total Meetings Attended	Percentage of Attendance
Tan Sri Abdul Halim bin Ali <i>(Non-Independent Non-Executive Director/Chairman)</i>	22/22	100%
Datuk Shahril Ridza bin Ridzuan <i>(Non-Independent Non-Executive Director)</i>	22/22	100%
Datuk Syed Zaid bin Syed Jaffar Albar <i>(Non-Independent Non-Executive Director)</i>	21/22	95.45%
Encik Aw Hong Boo <i>(Senior Independent Non-Executive Director)</i>	21/22	95.45%
Dato' Jasmy bin Ismail <i>(Independent Non-Executive Director)</i>	22/22	100%
Encik Lim Tian Huat <i>(Independent Non-Executive Director)</i>	20/22	91%
Cik Ravinder Kaur a/p Mahan Singh <i>(Independent Non-Executive Director)</i>	22/22	100%

ii) Special Board Meetings for Independent and Non-Interested Director

Name of Director	Total Meetings Attended
Encik Aw Hong Boo <i>(Senior Independent Non-Executive Director)</i>	2/2
Datuk Syed Zaid bin Syed Jaffar Albar <i>(Non-Independent Non-Executive Director)</i>	2/2
Dato' Jasmy bin Ismail <i>(Independent Non-Executive Director)</i>	1/2
Encik Lim Tian Huat <i>(Independent Non-Executive Director)</i>	2/2
Cik Ravinder Kaur a/p Mahan Singh <i>(Independent Non-Executive Director)</i>	2/2

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

Training and Development of Directors

The Board members are encouraged to attend continuous training to enable the directors to effectively discharge their duties. The Board continuously evaluates and determines its training needs.

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

The training programmes/conferences/seminars/dialogues attended by the Directors in 2014 focuses on Corporate Governance, Directors Responsibilities, Finance (Conventional & Islamic), Accounting, Investment, Business Sustainability and Risk Management:-

Tan Sri Abdul Halim Ali

1. Seminar Governan untuk Pengerusi dan Ahli Lembaga Pengarah Universiti / Ahli Lembaga Gabenor Universiti Kementerian Pendidikan Malaysia
2. Detecting, Preventing & Reporting Financial Irregularities & Fraud – Painful but Necessary
Bursatra Sdn Bhd
3. Hedging
Petron Malaysia Refining & Marketing Berhad

STATEMENT ON CORPORATE GOVERNANCE

4. PTD Alumni International Conference 2014: Transformational Leadership in Malaysia
Persatuan Alumni Pegawai Tadbir dan Diplomatik
5. Khazanah Megatrends Forum 2014: Scaling the Efficiency Frontier through Institutions, Innovation and Inclusion
Khazanah Nasional Berhad
6. Shariah Contracts Applicability in Corporate Products and its Comparison with Conventional Products
Malaysia Building Society Berhad
7. Risk Sharing in Islamic Financial Transactions – Mudharabah and Musharakah
Malaysia Building Society Berhad
8. UUM-Corporate Partnership Forum and Dinner 2014
Centre for University-Industry Collaboration of Universiti Utara Malaysia
9. Appreciation & Application of ASEAN Corporate Governance Scorecard
Minority Shareholder Watchdog Group and Bursa Malaysia Berhad
10. Risk Management & Internal Control: Workshop for Audit Committee Members
Bursa Malaysia Berhad
11. Great Companies Deserve Great Boards
Malaysian Directors Academy
12. The Advanced Senior Management Programme by Professor David Yoffie of Harvard Business School
UTM International Business School

Datuk Syed Zaid Bin Syed Jaffar Albar

1. Rethinking Strategy : Has Competitive Advantage Ended?
Bursatra Sdn Bhd
2. Shariah Contracts Applicability in Corporate Products and its Comparison with Conventional Products
Malaysia Building Society Berhad
3. Risk Sharing in Islamic Financial Transactions – Mudharabah and Musharakah
Malaysia Building Society Berhad
4. Risk Advocacy Sessions on Corporate Disclosure For Directors
Bursa Malaysia Berhad

Datuk Shahril Ridza Ridzuan

1. Navigating Challenges and Cross-Border Investment Opportunities: "Sixth Largest Pension Fund in The World: EPF's Global Strategy on Real Estate Investments"
Malaysia Property Incorporated and Securities Commission Malaysia
2. Dialogue Session with Prime Minister of Malaysia: "Sustainability & Diversity"
Securities Commission Malaysia
3. Joint Conference on Islamic Fund Raising: "Growing Investor's Appetite for Sukuk"
Bank Negara Malaysia and Hong Kong Monetary Authority
4. Invest Malaysia Conference 2014 - Malaysia's Growth Dynamics: Export to Consumption
Bursa Malaysia Berhad and CIMB Investment Bank Berhad
5. Roundtable on the Malaysian Code for Institutional Investors 2014: "From Aspiration to Adoption: A Stewardship Code for Malaysia"
Minority Shareholder Watchdog Group and Securities Commission Malaysia
6. EDHEC - Risk Days Asia 2014: "Pensions Forum - The Future of Retirement Provision in Asia - Australian Lessons on Pension System Design"
EDHEC - Risk Institute
7. EPF International Seminar: "Getting Organizations Ready For Demographic Changes"
ASEAN Social Security Association and Employees Provident Fund
8. The Malaysian Private Equity Forum: "EPF and it's Private Equity Portfolio: The reasons, the success to date and the future"
Ekuiti Nasional Berhad and Employees Provident Fund
9. 10th World Islamic Economic Forum Foundation: "Mobilising Capital From Waqf, Pension Funds and Unit Trusts: Developing Best Practises"
World Islamic Economic Forum Foundation
10. Marlborough House Infrastructure Summit
Commonwealth Business Council
11. Taklimat Mengenai Akta Perlindungan Data Peribadi 2010: "Personal Data Protection Act 2010 An Overview And Impact On EPF"
Encik Chew Phye Keat/Tetuan Raja, Darryl & Loh, Jabatan Undang – Undang, Employees Provident Fund
12. Board of Director's Workshop
Media Prima Berhad

STATEMENT ON CORPORATE GOVERNANCE

Dato' Jasmy Ismail

1. Shariah Contracts Applicability in Corporate Products and its Comparison with Conventional Products
Malaysia Building Society Berhad
2. Risk Sharing in Islamic Financial Transactions – Mudharabah and Musharakah
Malaysia Building Society Berhad

Encik Aw Hong Boo

1. MIA Conference 2014
Malaysian Institute of Accountants
2. Shariah Contracts Applicability in Corporate Products and its Comparison with Conventional Products
Malaysia Building Society Berhad
3. Risk Sharing in Islamic Financial Transactions – Mudharabah and Musharakah
Malaysia Building Society Berhad

Encik Lim Tian Huat

1. MIA Conference 2014
Malaysian Institute of Accountants
2. INSOL International, Annual Regional Conference
INSOL Hong Kong
3. Khazanah Megatrends Forum 2014: Scaling the Efficiency Frontier through Institutions, Innovation and Inclusion
Khazanah Nasional Berhad
4. Shariah Contracts Applicability in Corporate Products and its Comparison with Conventional Products
Malaysia Building Society Berhad
5. Risk Sharing in Islamic Financial Transactions – Mudharabah and Musharakah
Malaysia Building Society Berhad

Cik Ravinder Kaur a/p Mahan Singh

1. National Economic Summit and Dialogue with the Prime Minister of Malaysia – “Moving the Economy Forward: Getting to the Heart of the Matter”.
Asian Strategy & Leadership Incorporated Sdn Bhd
2. Planning Corporate Mergers & Acquisitions for Execution Excellence
Bursatra Sdn Bhd
3. Technology & Innovation: The Future of Banking & Financial Services Conference
FST Media

4. The Asian Banker Summit 2014: Building a Financial Infrastructure for the Asian Century
The Asian Banker
5. Risk Management Global Conference: Driving Sustainability, Agility & Resilience
Institute of Enterprise Risk Practitioners
6. 18th Malaysian Banking Summit 2014
Asian Strategy & Leadership Incorporated Sdn Bhd
7. Workshop on Challenges of Corporate Governance in the Financial Services Sector
University of Malaya Centre of Regulatory Studies and UM Faculty of Law
8. PNB Investment Series - Global Competitiveness and the Malaysian Experience
PNB Investment Institute Sdn Berhad
9. Khazanah Megatrends Forum 2014: Scaling the Efficiency Frontier through Institutions, Innovation and Inclusion
Khazanah Nasional Berhad
10. National Seminar on Anti-Money Laundering and Anti-Terrorism Financing 2014
Malaysian Institute of Corporate Governance
11. Shariah Contracts Applicability in Corporate Products and its Comparison with Conventional Products
Malaysia Building Society Berhad
12. Risk Sharing in Islamic Financial Transactions – Mudharabah and Musharakah Malaysia Building Society Berhad
13. Strong Leadership in Crisis Management
Bursatra Sdn Bhd

All Directors have attended the MAP as required under the Main Market Listing Requirements of Bursa Malaysia. The Directors are also regularly updated on any changes to legal and governance requirements which will affect the Group and also themselves as Directors.

Roles and Responsibilities of the Chairman and the President and Chief Executive Officer

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

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

STATEMENT ON CORPORATE GOVERNANCE

Senior Independent Director

In accordance with the best practices on Corporate Governance, Encik Aw Hong Boo was redesignated as Senior Independent Non-Executive Director on 22 April 2014. Encik Aw Hong Boo has extensive experience in finance and accounting and he is able to continue to provide constructive and independent advice from various perspective.

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

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

Appointment and Re-election of the Board

A formal and transparent procedure has been established by the Board for the appointment of new directors. A proposed candidate is first considered by the Nominating & Remuneration Committee which takes into account the skills and experience of the person before making a recommendation to the Board. The process of appointment is detailed out in page 71 of this Annual Report.

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

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

The performance of those Directors who are subject to re-appointment and re-election of Directors at the Annual General Meeting will be subject to assessment whereupon the recommendation is submitted to the Board for decision on the proposed re-appointment or re-election of the Director concerned for shareholders' approval at the next annual general meeting.

Independent Directors

The Board will assess the Independent Directors annually. The following are considered when assessing the independence:-

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

In addition to the annual assessment by the Board on the Directors' independence, each Independent Director also submits an annual declaration on their independence.

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

Therefore, Recommendation 3.2 of the Code (assessment criteria for independence of directors should include tenure) and Recommendation 3.3 of the code (the Board is allowed to seek shareholders' approval for independent directors after nine (9) years to remain as an independent director) do not arise.

Accordingly, Encik Aw Hong Boo who has been an Independent Non-Executive Director since 18 November 2005 will continue to be an Independent Director of the Company notwithstanding having served as an independent director on the Board for more than nine (9) years.

Supply of Information

Prior to the Board Meeting, the agenda and a set of Board papers relevant to the business of the meeting are circulated to all Directors on a timely basis for Directors to study and evaluate the matters to be discussed. Urgent papers may be presented and tabled at the meetings under supplemental agenda.

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

The Board has full and unrestricted access to all information within the Company and Group as well as the advice and services of Senior Management and Company Secretaries in carrying out their duties. The Directors may also seek independent professional advice, at the Company's expense, if and when required.

Company Secretary

The Company Secretary 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.

The Company Secretary also facilitates the communication of key decisions between the Board, Board Committees and Senior Management. The Company Secretary is also responsible for advising the Directors of their obligations and duties to disclose their interest in securities, disclosure of conflict of interest in transactions, prohibition on dealing in securities and restrictions on disclosure of price sensitive information.

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

Board Committees

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

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

STATEMENT ON CORPORATE GOVERNANCE

The Board Committees of the Company are as follows:-

- Executive Committee
- Audit Committee
- Risk Management Committee
- Nominating & Remuneration Committee
- Option Committee

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

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

(a) Executive Committee

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

The Executive Committee has taken over the function of the Arrears Recovery Committee which was disbanded on 23 October 2013. The oversight and review of restructuring proposals for the recovery of non-performing loans/financing (NPLs/NPFs), monitoring of the progress of the recovery of NPLs/NPFs and formulation of recovery strategies, was carried out by the Executive Committee.

The Executive Committee currently consists of two (2) Independent Non-Executive Directors and three (3) Non-Independent Non-Executive Directors.

During the financial year 2014, nine (9) meetings were held by the Executive Committee. The members and their attendance at the meetings are as follows:

Name of Members	Total Meetings attended
Tan Sri Abdul Halim bin Ali <i>(Non-Independent Non-Executive Director/Chairman)</i>	9/9
Datuk Shahril Ridza bin Ridzuan <i>(Non-Independent Non-Executive Director)</i>	9/9
Datuk Syed Zaid bin Syed Jaffar Albar <i>(Non-Independent Non-Executive Director)</i>	7/9
Dato' Jasmy bin Ismail <i>(Independent Non-Executive Director)</i>	9/9
Cik Ravinder Kaur a/p Mahan Singh <i>(Independent Non-Executive Director)</i>	8/9

(b) Audit Committee

The principal function of the Audit Committee is to assist the Board in the effective discharge of its fiduciary responsibilities particularly in the areas of accounting and management controls and financial reporting; to reinforce the independence and objectivity of the Internal Audit Division; to provide the focal point for communication between external auditors, internal auditors, Directors and the Management on matters in connection with accounting, reporting, and controls and providing a forum for discussion independent of the Management; and to undertake additional duties as may be deemed appropriate and necessary to assist the Board of Directors.

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

In accordance with the best practices of corporate governance, the Audit Committee presents its report as set out on pages 92-99 of this Annual Report.

(c) Risk Management Committee

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

The Risk Management Committee currently consists of four (4) Independent Non-Executive Directors.

During the financial year 2014, there were eight (8) meetings held by the Risk Management Committee. The members and their attendance at the meetings are as follows:-

Name of Members	Total Meetings attended
Encik Lim Tian Huat <i>(Independent Non-Executive Director/Chairman)</i>	8/8
Encik Aw Hong Boo <i>(Independent Non-Executive Director)</i>	8/8
Dato' Jasmy bin Ismail <i>(Independent Non-Executive Director)</i>	8/8
Cik Ravinder Kaur a/p Mahan Singh <i>(Independent Non-Executive Director)</i>	8/8

STATEMENT ON CORPORATE GOVERNANCE

(d) Nominating & Remuneration Committee

The primary responsibilities of the Nominating Committee are:

- a. To recommend to the board, candidates for all directorships to be filled by the shareholders or the board. In making its recommendations, the Nominating Committee should consider the candidates'-
 - skills, knowledge, expertise and experience;
 - professionalism;
 - gender diversity;
 - integrity; and
 - in the case of candidates for the position of independent non-executive directors, the Nominating Committee should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from the independent non-executive directors;
- b. To consider, in making its recommendations, candidates for directorships proposed by the President and Chief Executive Officer and, within the boundaries of practicability, by any other senior executive or any director or shareholder;
- c. To recommend to the board, directors to fill the seats on the board committee;
- d. To conduct annual review with the board, the required mix of skills and experience, gender diversity and other qualities, including core competences which non-executive directors should bring to the board;
- e. To implement a process with the board, for assessing the effectiveness of the board as a whole, the committees of the board, and for assessing the contribution of each individual director, including independent non-executive directors, as well as the President and Chief Executive Officer. All assessment and evaluations carried out in the discharge of all its functions should be properly documented;
- f. To consider and to recommend to the Board the appointment, resignation, retirement and other related issues involving the President and Chief Executive Officer;
- g. To consider and approve the appointment, promotion, resignation, retirement, removal and other related issues involving the key responsible persons. A key responsible person defined as a person who:-
 - (i) has the authority to make or has substantial influence in making decisions that affect the whole, or a substantial part of, the Company's business;
 - (ii) is principally accountable or responsible, whether solely or jointly with other persons, for implementing and enforcing policies and strategies approved by the board; or
 - (iii) is principally accountable or responsible, whether solely or jointly with other persons, for developing and implementing systems, internal controls and processes that identify, measure, monitor or control the Company's risks.
- h. To recommend to the Board, candidates for the appointment as Shariah Advisory Council members. In making the recommendation, the Nominating Committee should consider the following criteria:
 1. The candidate considered should be a Muslim;
 2. The skills set of the candidates for the position; and
 3. The candidate fulfills the fit and proper criteria as per the applicable guidelines by the relevant authorities.

- i. To conduct the annual review on the Performance of the Shariah Advisory Council members.

The activities of the Nominating Committee in 2014 are summarized as follows:-

- a. Reviewed and recommended the re-appointment and re-election of Directors at the 44th Annual General Meeting.
- b. Reviewed and recommended the appointment of Shariah Advisory Council member and their remuneration and allowances.
- c. Reviewed and recommended the performance bonus and salary increment of all staff.
- d. Reviewed, approved, and recommended, where applicable the resignation of Senior Management members in pivotal positions.
- e. Reviewed and recommended the appointment of Senior Independent Director and Board Committee members.
- f. Reviewed the performance of Shariah Advisory Council.

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

- i) Identification of skills
- ii) Selection of candidates
- iii) Fit & proper assessment
- iv) Nominating Committee deliberation
- v) Interaction with candidates
- vi) Recommendation for Board's approval

The primary responsibilities of the Remuneration Committee are:

- a) To propose a system and amount of executive and non-executive Directors' annual remuneration package to the Board;
- b) To review remuneration programmes from time to time and gauge their adequacy and results;
- c) To ensure the Company has a developed succession policy and that such policy is kept under review;
- d) To consider, and to recommend to the Board, the promotion, remuneration package, increment, bonuses and other related matters involving the President and Chief Executive Officer;
- e) To consider and approve the promotion, remuneration package, increment, bonuses and other related matters involving the key responsible persons. A key responsible person defined as a person who:-
 - (i) has the authority to make or has substantial influence in making decisions that affect the whole, or a substantial part of, the Company's business;
 - (ii) is principally accountable or responsible, whether solely or jointly with other persons, for implementing and enforcing policies and strategies approved by the board; or
 - (iii) is principally accountable or responsible, whether solely or jointly with other persons, for developing and implementing systems, internal controls and processes that identify, measure, monitor or control the Company's risks.

STATEMENT ON CORPORATE GOVERNANCE

- f) To consider and recommend to the Board, the remuneration package and other related matters involving the Shariah Advisory Council; and
- g) The Committee, when considering and recommending where appropriate will take into account that such recommendation/remuneration package/programmes and other related matters should reflect and be commensurate with the accountability, duties and responsibilities of the abovesaid parties under consideration.

The Nominating & Remuneration Committee also carries out the periodic review of the overall remuneration for Directors, President and Chief Executive Officer and key responsible persons whereupon recommendations for Directors and President and Chief Executive Officer are submitted to the Board for approval.

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

During the year ended 31 December 2014, seven (7) meetings were held. The members of the Nominating & Remuneration Committee and their attendance at the meeting are as follows:

Name of Members	Total Meetings attended
Encik Aw Hong Boo <i>(Senior Independent Non-Executive Director/Chairman)</i>	7/7
Datuk Syed Zaid bin Syed Jaffar Albar <i>(Non-Independent Non-Executive Director)</i>	7/7
Encik Lim Tian Huat <i>(Independent Non-Executive Director)</i>	6/7

(e) Option Committee

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

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

During the financial year 2014, one (1) meeting was held by the Option Committee. The members of the Option Committee and their attendance at the meeting are as follows:

Name of Members	Total Meetings attended
Encik Aw Hong Boo <i>(Senior Independent Non-Executive Director/Chairman)</i>	1/1
Datuk Syed Zaid bin Syed Jaffar Albar <i>(Non-Independent Non-Executive Director)</i>	1/1
Encik Lim Tian Huat <i>(Independent Non-Executive Director)</i>	1/1

B. DIRECTORS' REMUNERATION**Objective of Directors' Remuneration**

The Company's remuneration policy for Directors is tailored towards attracting and retaining Directors with relevant experience and expertise needed to assist in managing the Company and the Group effectively.

Remuneration Package

The remuneration package is as follows:-

(a) Directors' Fee

The Directors are paid an annual fee, the quantum of which is approved by the shareholders at the Annual General Meeting. In the event a Director is appointed or resigns during a financial year, the fee will be pro-rated and apportioned accordingly based on the month of the said Director's appointment or resignation.

(b) Allowance

The Directors are paid a meeting allowance for their attendance at meetings of the Board and the Board Committees. The quantum of the allowance is recommended by the Nominating & Remuneration Committee and is approved by the Board. In addition, the Chairman is also paid a car allowance.

(c) Details

The aggregate remuneration of the Directors during the financial year 2014 are categorized into the appropriate components as follows:-

	Emoluments (RM)	Allowance (RM)	Fee (RM)	Bonuses (RM)	Benefit -in-Kind (RM)	Total (RM)
Executive Director	-	-	-	-	-	-
Non-Executive Directors	-	734,000	760,000	-	-	1,494,000

Range of remuneration	Number of Directors	
	Executive Director	Non-Executive Director
Nil	-	-
Below RM50,000	-	-
RM50,001 – RM100,000	-	-
RM100,001 – RM150,000	-	-
RM150,001 – RM200,000	-	4
RM200,001 – RM250,000	-	2
RM250,001 – RM300,000	-	-
RM300,001 – RM350,000	-	1

Details of the Directors' remuneration of each Director during the financial year 2014 are set out under Note 30 of the Notes to the Financial Statements in this Annual Report.

STATEMENT ON CORPORATE GOVERNANCE

C. SHAREHOLDERS

Relationship with Shareholders and Investors

The Board recognises the importance of communication and proper dissemination of information to its shareholders, investors and all other stakeholders including the general public. Through extensive disclosures of appropriate and relevant information, the Company aims to effectively provide shareholders and investors with information to fulfill transparency and accountability. In this respect, the Company keeps shareholders informed via announcements and timely release of quarterly financial reports, press releases, annual reports and circulars to shareholders.

As part of the Group's initiatives, the President and Chief Executive Officer together with the Chief Financial Officer and the Company's Corporate Planning and Communications Division conducts discussions, dialogues and briefings with fund managers, financial analysts and the 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.

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

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

Annual General Meeting

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

The notice and agenda of AGM together with the Form of Proxy are given to shareholders at least 21 days before the AGM, which gives shareholders sufficient time to prepare themselves to attend the AGM or to appoint a 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.

D. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges its responsibility to ensure that the Company's and the Group's financial statements present a true and fair view of the state of affairs and are prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the provisions of the Companies Act, 1965 in Malaysia.

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

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

The Audit Committee assists the Board in scrutinizing the information for disclosure to ensure accuracy, adequacy and completeness.

Internal Control

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

The Audit Committee through the Internal Audit Division reviews the effectiveness of the system of internal controls of the Group periodically. The review covers the financial, operational and compliance controls.

The Statement on Risk Management and Internal Control as set out in this Annual Report provides an overview of the state of risk management and internal controls within the Group.

The minutes of the Audit Committee meetings are tabled to the Board for notation and for action by the Board where appropriate.

Complaint & Whistle Blowing Policy

The policy is developed to provide an avenue for the employees to report on suspected fraud, misconduct behavior and/or violations of the Company's Code of Conduct and Ethics as well as any other directives or policies issued by the Company from time to time. The Company also has in place a Fraud and Corruption Control and Guidelines in managing the risk of fraud and corruption which should be read together with the Complaint & Whistle Blowing Policy.

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

Relationship with Auditors

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

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

E. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required by the Companies Act, 1965 to prepare financial statements for the financial year which have been made out in accordance with the applicable Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the state of affairs and of the results and cash flows of the Company and the Group for the financial year then ended.

In preparing the financial statements, the Directors have used appropriate and relevant accounting policies that are consistently applied and supported by reasonable as well as prudent judgements and estimates, and ensure that applicable MFRS and IFRS have been complied with.

The Directors are responsible for ensuring that the Company and the Group keep proper accounting records which disclose with reasonable accuracy the financial position of the Group and Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

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

STATEMENT ON CORPORATE GOVERNANCE

F. ADDITIONAL COMPLIANCE STATEMENT

Utilisation of Proceeds Raised from any Corporate Proposal

During the financial year ended 31 December 2014, the following were carried out by the Group:

- 1) Rights Issue of new Ordinary Shares of RM1.00 each in MBSB

The proceeds raised from the issuances of MBSB shares pursuant to the rights issue exercise during the period have been used for expansion of financing business, settlement of higher cost of funding of the Group, purchase of financial instruments qualified as Liquefiable Assets and other expenses in relation to the rights issue exercise, as intended.

- 2) 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.

Share Buy-back

There was no approved share buy-back scheme during the financial year.

Options, Warrants or Convertible Securities

During the financial year ended 31 December 2014, a total of 38,115,338 options over ordinary shares were exercised pursuant to the Company's Employees' Share Option Scheme ("ESOS 2011/2016").

The share options granted to the President and Chief Executive Officer:-

Name	Revised Exercise Price	As at 1.1.2014	Additional Entitlement Pursuant to Rights Issue on 29.1.2014	Granted	Exercise	As at 31.12.2014
Dato' Ahmad Zaini Othman	1.01	122,960	19,848	-	-	142,808
	2.01	164,400	26,536	-	-	190,936

Since the commencement of the ESOS 2011/2016, the maximum allocation applicable to Key Senior Management of MBSB is 50% of the ESOS 2011/2016 Aggregate Maximum Allocation.

As at 31 December 2014, the actual percentage of total options granted to Key Senior Management of MBSB under the ESOS 2011/2016 was 1.05%.

Details of the ESOS 2011/2016 during the financial year 2014 are set out under Note 22 of the Notes to the Financial Statements in this Annual Report.

During the financial year ended 31 December 2014, a total of 383,664 warrants were exercised pursuant to the Company's warrant 2011/2016.

American Depository Receipt (ADR) or Global Depository Receipt (GDR) Programme

The Company did not sponsor any ADR or GDR programme during the financial year.

Sanctions and/or Penalties imposed

There were no sanctions or material penalties imposed on the Company and its subsidiaries, Directors or management by the relevant regulatory bodies during the financial year.

Non-Audit Fees

Apart from the annual audit fees, the Group has incurred other assurance related fees of RM5,000 and non-audit fees of RM3,583,000 to the external auditors of MBSB, Messrs Ernst & Young or its affiliates for the financial year ended 31 December 2014.

Variation in results

There were no variation between the audited results for the financial year ended 31 December 2014 and the fourth quarter results for the financial year ended 31 December 2014 of the Group.

Profit Guarantee

The Company did not issue any profit guarantee during the financial year.

Material Contracts with Related Parties

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

Dividend Payment Policy

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

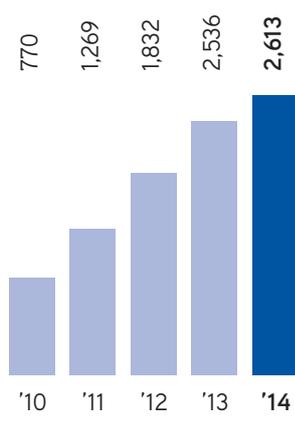
G. STATEMENT ON COMPLIANCE WITH THE BEST PRACTICES OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE

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

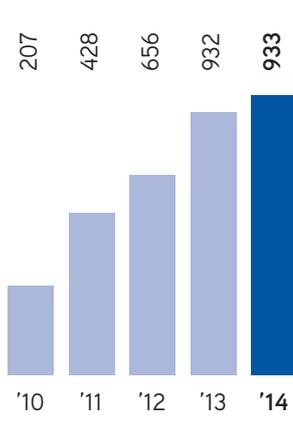
This Statement on Corporate Governance was approved by the Board of Directors on 16 February 2015.

FINANCIAL HIGHLIGHTS

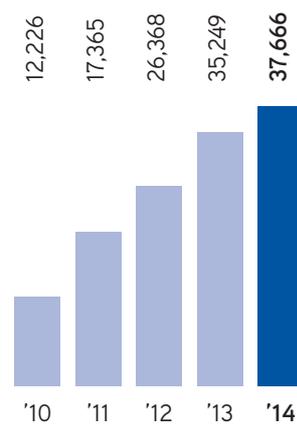
Group Revenue
(RM Million)



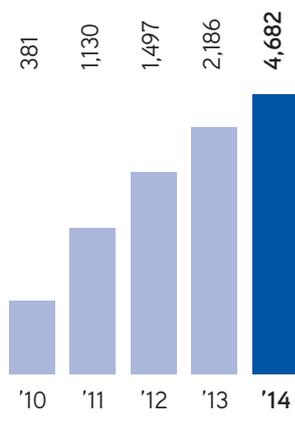
Group Profit Before Taxation
(RM Million)



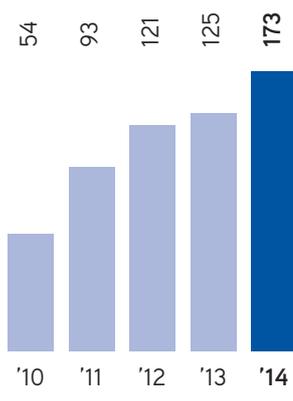
Group Total Asset
(RM Million)



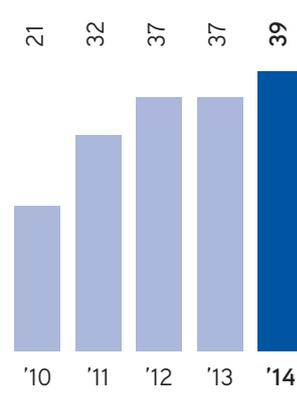
Group Shareholders' Equity
(RM Million)



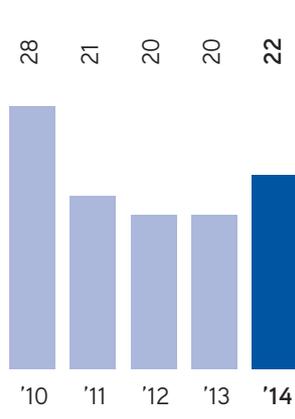
Group Net Asset Per Share
(Sen)



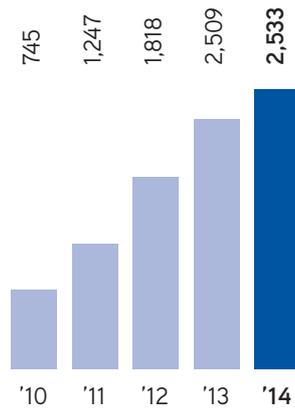
Group Basic Earnings Per Share
(Sen)



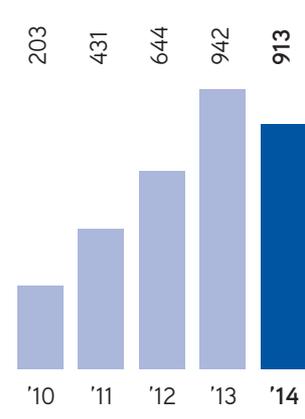
Group Cost to Income Ratio (%)



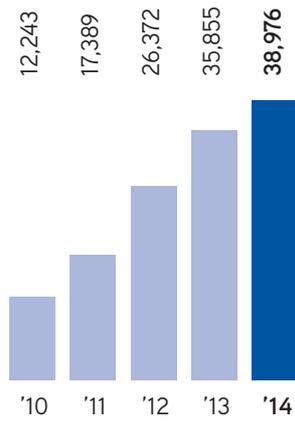
Company Revenue (RM Million)



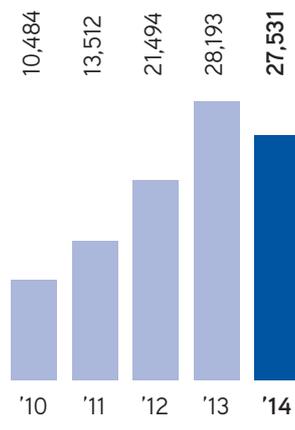
Company Profit Before Taxation (RM Million)



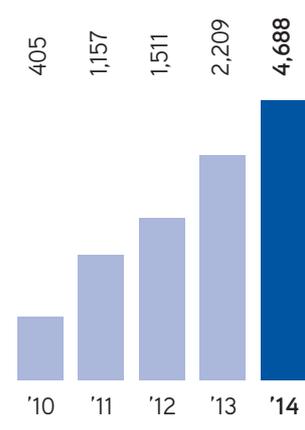
Company Total Assets (RM Million)



Company Deposit (RM Million)



Company Shareholders' Equity (RM Million)



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WISMA MBSB



*Corporate Social
Responsibility
(CSR) Initiatives*

1990 - 2012, Wisma MBSB, Leboh Ampang, Kuala Lumpur

CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES

MBSB always strives to inculcate and embed in itself the Corporate Social Responsibility (CSR) to value add its presence in the industry. As we move forward in pursuit of our aspirations, we will continue to balance our corporate achievements with our social obligations to the community.

Community

Giving back to the communities we serve and those who serve us are vital and treasured in our corporate value. We continuously extend our hand in improving the livelihood of the underprivileged and marginalized communities.

Under the umbrella of MBSB's flagship CSR initiative Over the Top PINTAR School program, we continued to implement several programs to nurture young minds and inculcate the importance of English language and learning skills through our adopted schools in Sabah, Sarawak, Selangor, Perak, Johor and Pahang.



This program aims to create sustained efforts to develop a passion for the English language whilst emphasizing the importance of the language in the global environment and impart effective ways of learning amongst Malaysian children. Teachers from our adopted schools also benefit from this initiative through the English workshops and teaching skills programs enabling them to become better English teachers.

Our efforts also extend to raising awareness on home safety through another flagship program, the MBSB Home Safety Campaign. In 2014, MBSB collaborated with myGempak Community through a series of awareness campaigns conducted at seven Projek Perumahan Rakyat (PPR) within Klang Valley by disseminating the importance of home safety measures to the residents. Art and creativity were deployed here as parts of the residential blocks were painted with murals depicting home safety. The services from Royal Malaysian Police and Fire Brigade were also sourced to perform safety demonstrations.

“Program Sejahtera MBSB” was initiated to ensure the living conditions of vulnerable communities meet the minimum standards of safety and comfort. This is done by providing them with conducive homes through home building and rehabilitation exercises. 15 families in the states of Perak, Johor and Terengganu have benefited from this program for year 2014.

We also encourage our employees to contribute their time through voluntary programs. The Soup Kitchen program in collaboration with an NGO - Persatuan Tindakan Wanita Islam (PERTIWI) has seen active participation by our employees beginning July 2013. MBSB has worked closely with PERTIWI by offering manpower and monetary contribution to support their efforts in distributing food, clothing and other basic necessities to the homeless.

The annual Blood Donation campaign is another continuous initiative to assist the National Blood Bank in maintaining a positive balance of blood. Our other CSR initiatives include sponsorship and donations to less privileged communities, charity homes and welfare organizations.



Workplace

Creating a conducive work environment brings out the best in our people. We continue to offer a working environment that is respectful and we look at our employees as individuals and offer them opportunities to develop.

In 2014, we carried on to strengthen our enlarged workforce through various training and development programs to enable employees reach their full potentials. Our Human Capital Development has invested over RM4,000,000 on training and development programs for different levels of employees throughout 2014.

Acquiring first-rate employees is of high importance for MBSB as it impacts the quality of products and services being offered and only reliable products and services translate into a loyal customer base. As at December 2014, MBSB employees have totaled up to 1,524 with a growth of 34.8% in human capital compared to the previous year, ranging from upper management level to Sales and Service Centres personnel. Currently MBSB has a total of 46 Sales and Service Centres and 5 Representative Offices (REP) across Malaysia.

At MBSB, employees have access to attractive remuneration packages and incentives as well as reward schemes, in the hope that these will stimulate employees' achievement and at the same time generate a platform for future performance.

We constantly encourage our employees as well as their children to excel academically. The MBSB High Achievement Award and MBSB Education Excellence Award reward employees who have successfully progressed in their tertiary education and their children who excel in the national examinations.



As a result of our ongoing efforts to develop our workforce, we are pleased to announce that MBSB is a recipient of the “Best Companies to Work for in Asia 2014 Awards” organized by HR Asia Journal, Asia’s most authoritative publication for HR professionals. Further to this recognition, we have also received our employees’ solid backing as an extraordinary 93% of our employees have been surveyed as engaged with the company. Whereas 75% of them surveyed are not thinking of leaving the Company and these results are considerably above four external benchmarks, including the national and industry.

This is certainly another impressive accomplishment for us as highly engaged employees can lead to improved productivity level and turnover rates which subsequently can result in better customer satisfaction.

Marketplace

We strive to always accord our customers the very best of what we have to offer in terms of innovative products and services.

MBSB has successfully implemented several key initiatives to develop innovativeness such as the opening of the first children’s banking outlet in the country, the Kids Fun Branch in IOI Puchong Mall and expanding our corporate product range with the introduction of the Oil Palm Plantation Financing and Equipment Financing.

In all that we do, we strive to ensure a high level of customer care. Our initiatives included improving turnaround time (TAT) and the establishment of a Customer Relationship Management (CRM) department with the aim to heighten the quality of customer service in MBSB.



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

As a listed company on Bursa Malaysia, the Board of Directors have an obligation under paragraph 15.26(b) of Bursa Malaysia Securities Berhad's Main Market Listing Requirements, to ensure that a statement on the state of the Group's risk management and internal control system is included in this Annual Report. The following Statement on Risk Management and Internal Control is prepared in accordance with the guidelines as set out in the "Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers".

BOARD'S RESPONSIBILITY

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

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

Responsibility for implementing the Group's strategies and day-to-day businesses are delegated to the Management. The organization structure sets out clear segregation of roles and responsibilities, lines of accountability and levels of authority to ensure effective and independent stewardship. The Management assists the Board in implementing the risk management policies and procedures approved by the Board as well as developing and operating internal controls to manage the identified risks as well as monitors and reports regularly to the Board on all risks related to the Group. The Management is also accountable to ensure such policies and procedures are being continuously reviewed in order to meet the changing financial landscape as well as the changes in the nature and size of the Group's activities.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

GROUP RISK MANAGEMENT FRAMEWORK

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

MBSB has a well-defined organizational structure with clearly defined lines of accountability and delegation of responsibility to ensure that there are no overlaps and coverage gaps. The Group's risk management structure provides clear lines of responsibility and accountability for the risk management process as well as outlines the principal risk and control responsibilities.

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

RISK MANAGEMENT COMMITTEE

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

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

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

During the financial year ended 31 December 2014, a total of 8 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	Total Meetings attended
Encik Lim Tian Huat <i>(Independent Non-Executive Director/Chairman)</i>	8/8
Encik Aw Hong Boo <i>(Independent Non-Executive Director)</i>	8/8
Dato' Jasmy bin Ismail <i>(Independent Non-Executive Director)</i>	8/8
Cik Ravinder Kaur a/p Mahan Singh <i>(Independent Non-Executive Director)</i>	8/8

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

MANAGEMENT COMMITTEES

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

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

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

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

GROUP RISK MANAGEMENT DIVISION

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

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

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

- **Development of Stress Testing Methodologies.** Stress testing is an important risk management tool which serves to alert the Management of adverse unexpected outcomes relating to a variety of risks and provide an indication of how much capital might be needed to absorb losses should large shocks occur.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- Establishment of a Shariah Risk Unit to monitor and control Shariah risks and to mitigate any Shariah non-compliance events. A Shariah Risk Management Procedures document was subsequently developed to ensure that the management of Shariah risk is clearly identified, measured, monitored, controlled and reported.
- Development of the Credit Policy, Responsible Financing Policy, Introduction of New Products Policy, and a comprehensive Approving Authority Manual.
- Development of methodology to establish early warning Key Risk Indicators (KRI) as well as Risk Control Self Assessments (RCSA) to alert Management and Board of significant changes in risk levels.
- Increased monitoring and reporting of major risk exposures to the Management and Board in order to identify emerging risks on a timely basis.
- Introduction of a Watchlist for corporate accounts that serves as an 'early warning' or 'detection' mechanism to identify accounts which have a higher than normal risk due to certain adverse factors, for closer monitoring.
- Introduction of a Post-Mortem Review process which requires reviews to be conducted on impaired credits to enable the Group to better understand how problem credits and losses develop and identify weaknesses in the Group's existing credit-granting process and monitoring process.
- Introduction of a monitoring tool for Interest Rate/Rate of Return Risk on Banking Book (IRRBB/RORBB). This is to enhance the management of the risk to earnings and capital due to changes in interest/profit rates.

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

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

INTERNAL AUDIT FUNCTION

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

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

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

COMPLIANCE FUNCTION

Compliance management is the collective responsibility of the Board, Senior Management and every employee of the Group. The Group Compliance function is driven by the Compliance Department, whereby its main function is to facilitate, advise, monitor and educate the Business and Support units/entities to act in accordance with laws, regulations and guidelines.

The Compliance Department, reporting to the President and Chief Executive Officer and the Board, performs regular compliance reviews, Anti-Money Laundering transaction monitoring and provides compliance advisory support to ensure regulatory and compliance risks are mitigated. Shariah compliance reviews were also conducted with the objective of ensuring that the Group's activities and operations do not contravene with Shariah rulings. The compliance thematic reports, Shariah review reports and progress of rectification of issues are tabled to MANCO and the Board. In addition, the Shariah review reports are also tabled to the Shariah Advisory Committee (SAC) to ensure that the Group's practices are Shariah compliant.

The Compliance Department was expanded in 2014 whereby restructure of department were done with an additional functional unit, Shariah Compliance Unit was incorporated to ensure the Group's compliance with all applicable laws, regulations and internal policies and procedures.

During the year, the Compliance Department was involved in the following key activities:

- Implementation of a revised Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) Framework. AML/CFT Health Checklists were introduced to serve as a self-assessment tool to ensure continuous adherence to the revised AML/CFT framework. Training was conducted on the revised framework as well as on the AML/CFT Health Checklist to ensure all staff are aware of the new requirements. Moreover, Compliance Department had also successfully rolled-out an AML e-learning portal to ensure timely execution of AML/CFT training to all staff.
- Introduction of classroom training and development programmes on key areas of compliance. In addition, "Compliance Awareness Alerts" were introduced during the year to ensure staff are kept abreast on essential compliance matters.
- Introduction of Compliance Thematic Reviews on pertinent regulatory requirements.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

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

- A detailed integrated budgeting process has been established, resulting in clear ownership of business objectives, plans and the expected financial outcome based on the Board's approved budget. The Group's budget and business plan as well as strategic initiatives, taking into account the risk appetite, are deliberated by the Management and the Board on an annual basis. The Board also reviews the operational and financial performance of the Group. Quarterly management reports are presented to the Board providing information on the financial performance and risk exposure of the Group to enable the Board to effectively oversee the Group's overall performance objectives, key initiatives, financial plans and annual budget.
- In addition to the RMC and the AC, the Board is supported by other established Board Committees in the execution of its responsibilities namely, the Executive Committee (EXCO) and Nominating & Remuneration Committee, details of which are set out in the Statement on Corporate Governance. Each committee has clearly defined its terms of reference.
- Approving Authority Policy with appropriate empowerment and authority limits has been approved by the Board, including authorization limits at various levels of Management in the Group, to ensure accountability and responsibility.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- Business Continuity Management (BCM) policies have been established for the Group. The processes are regularly tested during the year with the relevant department/ division to ensure the effectiveness of the process. The BCM programme serves as a guideline for the Group to resume critical operations within the required timeframes and minimises the cost of damages and interruptions due to disasters.
- Policies, procedures and processes governing the Group's businesses and operations are documented and are made available to employees across the Group through the Group's intranet portal. These policies and procedures are reviewed and updated by the business and functional units through a structured process of review to cater to changes in laws and regulations and changes to the business and operational environment, as well as to ensure that appropriate controls are in place to manage risks.
- 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 Group Code of Conduct and Ethics sets 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 Code of Conduct and Ethics to conduct themselves with integrity and objectivity and not be placed in a position of conflict of interest.
- The Group has a Complaint & Whistle Blowing Policy which addresses the avenues for individuals to report suspected breaches of law or regulations or other improprieties. All staff are accorded the opportunity to report via the Whistle Blowing mechanism with the assurance that it shall be dealt with confidentiality and that the reporter's identity is protected.
- The Group participates in forums and trainings to stay informed on fraud events and controls. To this extent, the Fraud & Corruption Control Guidelines has been approved by the Board and has been disseminated to all employees.
- The Group's AML/CFT Framework is continuously reviewed and updated to meet regulatory requirements as well as to combat money laundering and financing of terrorism activities. All employees are expected to carry out their functions with the highest ethical and professional standards, in accordance with the AML/ CFT Framework and to be continuously vigilant against the Group being exposed or used to launder money or finance illegal activities including terrorist financing.
- The President and Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Head of Compliance of the Group have provided confirmation on the effectiveness of the system of risk management and internal control. There were no material losses incurred during the financial year under review as a result of weaknesses in internal control. Management continues to take measures to strengthen the control environment.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by paragraph 15.23 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, 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 2014. Their review was performed in accordance with Recommended Practice Guide (RPF) 5 issued by the Malaysian Institute of Accountants. Based on their review, the external auditors had assured that this Statement is consistent with their understanding of the process that the Board has adopted in the review of the adequacy and effectiveness of the Group's risk management and internal control system.

RGP5 does not require the external auditors to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control procedures.

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

The statement was approved by the Board of Directors on 16 February 2015.

REPORT OF THE AUDIT COMMITTEE

1.0 REPORT OF THE AUDIT COMMITTEE

During the financial year ended 31 December 2014, a total of 10 Audit Committee meetings were held. The Audit Committee comprises the following members and the details of attendance of each member at the Committee meetings held during the financial year are as follows: -

Name of members	Total meetings attended
Encik Aw Hong Boo <i>(Independent Non-Executive Director/Chairman)</i>	10/10
Encik Lim Tian Huat <i>(Independent Non-Executive Director)</i>	10/10
Datuk Shahril Ridza Ridzuan <i>(Non-Independent Non-Executive Director)</i>	9/10

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

2.0 SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

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

2.1 Financial Reporting

- Reviewed the quarterly unaudited financial results of MBSB and MBSB Group prior to recommending to the Board of Directors for approval.
- Reviewed the annual audited financial statements of MBSB and MBSB Group with the external auditors prior to recommending to the Board of Directors for approval.

The above reviews were to ensure that the financial reporting and disclosures are in compliance with the: -

- Provisions of the Companies Act 1965;
- Listing Requirements of Bursa Malaysia Securities Berhad;
- Applicable approved accounting standards in Malaysia; and
- Other legal and regulatory requirements

In the review of the annual audited financial statements, the Audit Committee discussed with Management and the external auditors the accounting principles and standards that were applied and their judgement of the items that may affect the financial statements

2.2 Internal Audit

- a) Reviewed and approved the annual Internal Audit Plan to ensure adequacy of scope and coverage of the auditable areas including the Internal Audit resource requirements.
- b) Reviewed the status of completion of the Internal Audit Plan and assessed the performance of Internal Audit Division.
- c) Reviewed the internal audit reports tabled during the year, which outlined the audit issues, recommendations and management's response thereof. Discussed with management and where appropriate, directed management to rectify and improve the system of internal controls and workflow processes based on the internal auditors' recommendations for improvement.
- d) Monitored the corrective actions taken on the outstanding audit issues to ensure that all the key risks and control lapses have been addressed.

2.3 External Audit

- a) Reviewed with the external auditors: -
 - their audit planning memorandum for the year ended 31 December 2014 comprising their audit plan, audit strategy and scope of work for the year.
 - their annual audit report and management letter together with management's response to the findings of the external auditors.
 - updates of new developments on Financial Reporting Standards issued by the Malaysian Accounting Standards Board.
- b) Met the external auditors twice for discussion without the presence of the Management.
- c) 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.

2.4 Policy Review and Other Matters

- a) Reviewed the Report of Audit Committee for inclusion in the MBSB's 2014 Annual Report before recommending to the Board for approval.
- b) Reviewed the disclosure statements on compliance with the Malaysian Code on Corporate Governance and the statement of internal controls on the annual audited financial statements for inclusion in the MBSB's 2014 Annual Report before recommending to the Board for approval.
- c) Tabled the minutes of each Audit Committee meeting to the Board for notation, and for further direction by the Board, where necessary.

REPORT OF THE AUDIT COMMITTEE

2.5 Employee's Share Option Scheme

Verified the allocation of options to ensure compliance with the criteria for allocation pursuant to the share for employees.

2.6 Directors' Training

During the year, the Committee members have attended the relevant training programmes, conferences and seminars as detailed out on pages 61-65 of the Annual Report.

3.0 STATEMENT ON INTERNAL AUDIT FUNCTION

- 3.1 The internal audit function is performed in-house and undertaken by MBSB's Internal Audit Division. The Internal Audit Division functionally reports to the Audit Committee as an independent unit that provides independent and objective assurance on the adequacy and effectiveness of MBSB's internal control systems implemented by the Management.
- 3.2 The Internal Audit Division function which is guided by its Audit Charter that formally documents the roles, duties and responsibilities of the internal auditors, reports functionally to the Audit Committee and administratively to the President and Chief Executive Officer. The principal activities of the Internal Audit Division are to provide independent and objective assurance on the adequacy and effectiveness of MBSB's internal control system as implemented by the Management.
- 3.3 The Internal Audit Division is represented at the onset in all major IT projects undertaken, and provide necessary input especially in relation to controls required.
- 3.4 The Internal Audit Division provides periodic reports to the Audit Committee deliberating the results of the audit conducted in terms of risk management of the unit, operating effectiveness of internal controls, compliance with internal and regulatory requirements and overall management of the unit. Key control issues, significant risks and recommendations are highlighted along with the Management's responses and action plans for improvement and/or rectification where applicable. This enables the Audit Committee to execute its oversight function by forming an opinion on the adequacy of measures undertaken by the Management.
- 3.5 The Internal Audit Division in performing its duties covered all units and operations of MBSB, The selection of the units to be audited from the audit universe was based on the Annual Audit plan which was premised on a risk-based approach with the emphasis on the following main core audit strategies: -
 - a) Financial audit with the primary objective was to provide an independent, reasonable assurance of the accounting system and information.
 - b) Credit audit of Head Office/Sales and Service Centres covering the credit underwriting of post-disbursed loan, credit operations, security documentation and credit recovery.

- c) Operational audit with the primary objective to ensure effective operations of business and banking processes were discharged.
- d) Treasury audit with the aim to ensure that Treasury operations were in-line with the objectives and strategies of the asset and liabilities management and the approved policies and procedures as well as to ensure proper authentication and verification of treasury transactions.
- e) Information System (IS) audit with the primary objective to ensure that the in-house application system and those outsourced systems in respect of the process data migration, operations, access control, physical security, maintenance and its contingency planning were in accordance with MBSB's policies and procedures.

3.6 During the financial year ended 31 December 2014, the Internal Audit Division has carried out the following activities:-

- a) Presented its audit plan, audit budget and scope of work to Audit Committee for approval. The internal auditors have adopted a risk-based approach towards the planning and conduct of audits, which is designed to evaluate and monitor MBSB's internal controls system.
- b) Conducted the scheduled audits and tabled the audit reports to Audit Committee highlighting the audit findings, issues and recommendations for improvement.
- c) Follow-up on management corrective actions on unresolved audit findings and reported the status to the Audit Committee.
- d) Performed ad-hoc audit assignments and investigations at the request of the Audit Committee on areas of concern identified by the Audit Committee.
- e) Provided advisory services to review the operational guidelines and manuals to ensure pertinent controls embedded are consistent with the changes in businesses and operations.
- f) Worked closely with the external auditors to resolve any control issues as raised by external auditors to ensure that significant issues are duly acted upon by the Management.

3.7 The cost incurred for the internal audit function in respect of the financial year ended 31 December 2014 amounted to RM1,541,207.

4.0 INTERNAL AUDIT REPORTS

The Internal Audit Division completed 69 assignments during the year covering audits of all key operations and investigations carried out. All findings by the Internal Audit Division are tracked and followed up until closed.

REPORT OF THE AUDIT COMMITTEE

TERMS OF REFERENCE

1.0 COMPOSITION OF THE COMMITTEE

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

- i) At least three (3) non-executive directors, a majority of whom are independent directors;
- ii) At least one (1) member of the Committee must be a member of the Malaysian Institute of Accountants (MIA) or any other equivalent qualifications recognised by the MIA; and
- iii) No alternate directors shall be appointed as a member of the Committee. The members of the Committee shall elect a Chairman from among themselves who shall be an Independent Director.
- iv) All members of the Committee hold office only so long as they are Directors of the Company. In the event of any vacancy in the Committee, arising from retirement or resignation, with the result that the number of members is reduced below 3, the Board of Directors must fill the vacancy within 3 months.

2.0 OBJECTIVES

The primary objectives of the Committee are to: -

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

3.0 RIGHTS

The Committee shall: -

- i) Have the authority to investigate any matter within its terms of reference;
- ii) Have the resources, which are required to perform its duties;
- iii) Have full and unrestricted access to any information pertaining to the Company and the Group;

- iv) Have direct communication channels with external auditors, internal auditors and risk managers;
- v) Be able to obtain independent professional or other advice; and
- vi) Have the authority to convene meetings with external auditors, internal auditors or both, in the absence of other directors and employees, at least twice a year.

4.0 DUTIES AND RESPONSIBILITIES

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

4.1 Internal Audit

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

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

- a) Review the adequacy of the scope, functions, resources and competency of the Internal Audit Division and that it has the necessary authority to carry out its duties;
- b) Review the internal audit programme processes, results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendation of the Internal Audit Division;
- c) To perform the appointment, transfer or removal of the Chief Internal Auditor. The appraisal of the Chief Internal Auditor would be evaluated and moderated by the Chairman of the Audit Committee;
- d) To evaluate and review the performance and decide on remuneration package of internal auditors.
- e) Approve any appointment or termination of senior staff members of the internal audit functions.
- f) Take cognisance of resignations of senior internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.

4.2 External Audit

- a. To review with external auditors' audit scope and plan, including any changes to the planned scope of the audit plan.
- b. To review with external auditors, their audit report and audit findings and Management's response including the status of previous audit recommendations.

REPORT OF THE AUDIT COMMITTEE

- c. To recommend the nomination of a person or persons as external auditors.
- d. To consider the appointment of external auditors, the audit fee and any question of resignation or dismissal and to make recommendations to the Board.
- e. Assess the qualification, expertise, resources and effectiveness of the external auditors.
- f. Monitor the effectiveness of the external auditors' performance and their independence and objectivity.
- g. Review the assistance given by the Group's officers to the external auditors and any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.
- h. Approve non-audit service provided by the external auditors.

4.3 Financial Reporting

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

- a. Any changes in accounting policies and practices;
- b. Significant adjustments and issues arising from the audit;
- c. Significant and unusual events;
- d. The going concern assumption; and
- e. Compliance with applicable Financial Reporting Standards and other legal and regulatory requirements.

4.4 Related Party Transaction

Review any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedures or course of conduct that raises questions on Management's integrity;

4.5 Annual Report

Report the Audit Committee's activities for the financial year.

4.6 Investigation

Instruct the conduct of investigation into any activity or matter within its terms of reference.

4.7 Write Off

To review, evaluate and endorse all debts writing off.

4.8 Others

- a) To undertake any other activities as authorised by the Board of Directors.
- b) To review operational policies and processes of the Group and to formulate new ones where appropriate with a view to improve efficiency, cost effectiveness and control over the resources of the Group.

5.0 MEETINGS

- i) The Committee meets every quarter or more frequently as circumstances dictate.
- ii) The quorum for a meeting shall be two (2) members whereby both members present must be Independent Non-Executive Directors.
- iii) As part of its duty to foster communication, the President and Chief Executive Officer, the Management Team and the Chief Internal Auditor are invited to attend the meetings for the purpose of briefing the Committee on the activities involving their areas of responsibilities. The presence of the external auditors will be requested when required.
- iv) The Chairman of the Committee shall report and update the Board of Directors on significant issues and concerns discussed during the Committee meetings and where appropriate, make the necessary recommendations to the Board of Director.
- v) The Chairman of the Committee should engage on continuous basis with senior management, such as Chairman, the President and Chief Executive Officer, the Chief Financial Controller, the Chief Internal Auditor and the external auditors in order to be kept informed of matters affecting the Company and the Group.
- vi) The Chief Internal Auditor shall be the Secretary to the Committee.

ANALYSIS OF SHAREHOLDINGS

as at 16 February 2015

Authorised Share Capital	: 10,000,000,000 Ordinary Shares of RM1.00 each
Issued and Fully Paid-Up Capital	: 2,711,321,525 Ordinary Shares of RM1.00 each
Class of Shares	: Ordinary Shares of RM1.00 each
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	484	2.35	15,272	0.00
100 - 1,000	4,788	23.28	4,314,043	0.16
1,001 - 10,000	10,795	52.48	46,511,176	1.72
10,001 - 100,000	3,848	18.71	111,162,781	4.10
100,001 - 135,566,075	654	3.18	810,390,626	29.89
135,566,076 AND ABOVE	1	0.00	1,738,927,627	64.14
Total	20,570	100	2,711,321,525	100

Directors' Direct and Indirect Interests in Shares in the Company

Name	Direct Interest		Indirect Interest		Total Shareholdings	
	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
Tan Sri Abdul Halim bin Ali	79,042	0.002	-	-	79,042	0.002

Substantial Shareholders

No.	Name	No. of Ordinary Shares	% of Ordinary Shares
1	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	1,738,927,627	64.14
Total		1,738,927,627	64.14

Thirty Largest Shareholders

No.	Name	No. Of Shares	% Of Shares
1	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	1,738,927,627	64.14
2	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HAWANG KIM LIAN	106,589,300	3.93
3	CIMSEC NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR CIMB SECURITIES (SINGAPORE) PTE LTD (RETAIL CLIENTS)	105,961,017	3.91
4	PERMODALAN NASIONAL BERHAD	94,252,752	3.48
5	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEAN SIEW SEE	86,179,450	3.18
6	DB (MALAYSIA) NOMINEE (ASING) SDN BHD EXEMPT AN FOR DEUTSCHE BANK AG LONDON (PRIME BROKERAGE)	18,518,300	0.68
7	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (NORGES BK)	15,667,300	0.58
8	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CMY INCUBATOR SDN BHD	14,000,000	0.52
9	HSBC NOMINEES (ASING) SDN BHD TNTC FOR LSV EMERGING MARKETS EQUITY FUND L.P.	10,466,900	0.39
10	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CMY EQUITY SDN BHD	9,800,000	0.36
11	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR KHAZANAH NASIONAL BERHAD (VCAM)	9,510,100	0.35
12	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR AMB VALUE TRUST FUND (4249)	9,275,000	0.34
13	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR THE BANK OF NEW YORK MELLON (MELLON ACCT)	9,032,493	0.33
14	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (AUSTRALIA)	8,661,377	0.32
15	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	7,450,667	0.27
16	CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (VCAM EQUITY FD)	7,448,700	0.27
17	POSEIDON SENDIRIAN BERHAD	6,053,648	0.22
18	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CMY CAPITAL MARKETS SDN BHD	5,200,000	0.19
19	HONG LEONG ASSURANCE BERHAD AS BENEFICIAL OWNER (LIFE PAR)	5,022,024	0.19
20	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 1)	4,559,706	0.17
21	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	4,266,406	0.16
22	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ACCCIM SERC TRUST	4,125,000	0.15
23	HLB NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LOW KANG HAI RICHARD (SIN 9131-9)	3,986,594	0.15
24	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	3,886,207	0.14
25	B-OK SDN BHD	3,754,497	0.14
26	MALACCA EQUITY NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR PHILLIP CAPITAL MANAGEMENT SDN BHD (EPF)	3,581,697	0.13
27	MALACCA EQUITY NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR PHILLIP CAPITAL MANAGEMENT SDN BHD	3,100,344	0.11
28	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HENG TENG KUANG	3,000,103	0.11
29	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR PERTUBUHAN KESELAMATAN SOSIAL (AIM 6939-405)	2,962,500	0.11
30	YEAP CHIN LOON	2,950,935	0.11
Total Shareholding Of The Thirty Largest Shareholders		2,308,190,644	85.13

ANALYSIS OF WARRANTHOLDINGS

as at 16 February 2015

Analysis of Warrantholdings

Size of Warrantholdings	No. of Warranholders	% of Warranholders	No. of Warrants	% of Warrants
1 - 99	190	7.70	5,117	0.03
100 - 1,000	349	14.14	244,494	1.47
1,001 - 10,000	1,618	65.53	4,623,365	27.89
10,001 - 100,000	294	11.91	8,087,897	48.79
100,001 - 828,890	18	0.73	3,616,955	21.82
828,891 AND ABOVE	0	0.00	0	0.00
Total	2,469	100	16,577,828	100

Substantial Warranholders

There is no substantial warranholder as at 16 February 2015.

Thirty Largest Warrantholders

No.	Name	No. of Warrants	% of Warrants
1	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	568,847	3.43
2	LOH WAN KHEAT	408,918	2.47
3	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR BERNADETTE JEANNE DE SOUZA (003)	280,732	1.69
4	CIMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEAW HUNG MENG (PENANG-CL)	267,541	1.61
5	AFFIN HWANG NOMINEES (ASING) SDN BHD PHILLIP SECURITIES PTE LTD FOR WEI JACK NGOH	227,900	1.37
6	LIM TOCK OOI	183,427	1.11
7	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEE BAN WAN (E-KLG/JTH)	171,700	1.04
8	MOHD RADZUAN BIN AB HALIM	168,638	1.02
9	LGK SENDIRIAN BERHAD	162,599	0.98
10	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ERWIN SELVARAJAH A/L PETER SELVARAJAH	150,000	0.90
11	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHAI KON LIM	149,400	0.90
12	LAU TEIK HIM CO SDN BHD	149,325	0.90
13	TOMMY BIN BUGO @ HAMID BIN BUGO	127,524	0.77
14	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR UBS AG SINGAPORE (FOREIGN)	123,664	0.75
15	KAM SIONG CHEE	121,949	0.74
16	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ONG ENG LOO	121,949	0.74
17	JF APEX NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN MENG KHONG (MARGIN)	116,700	0.70
18	LIM TOR PING	116,142	0.70
19	ABD RAHIM BIN AMBAK	100,000	0.60
20	KAN LAI CHAN	100,000	0.60
21	LOO AH HOOI	100,000	0.60
22	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR MOHD RADZUAN BIN AB HALIM	97,094	0.59
23	TAN SHU MEI	96,978	0.58
24	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PUA MENG HONG	85,300	0.51
25	ONG ENG LEONG	84,600	0.51
26	MAK KIN SENG	83,600	0.50
27	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR KANG SIEW LAY (PB)	80,000	0.48
28	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR FONG JONG HAN (CEB)	80,000	0.48
29	THEN YOON YIN	80,000	0.48
30	OOI CHAI TIEW	75,700	0.46
	Total	4,680,227	28.21

SCHEDULE OF PROPERTIES

No.	Location	Tenure	No. of Years	Expiry Date	Land Area (Sq. Metres)	Description	Age of Building (Years)	Book Value (RM'000)
1	Lot 31632, 31633 and 31634, Mukim of Kapar, District of Klang, Selangor.	Leasehold	99	08.05.2093	42,193.00	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	15	51,814
3	3 agricultural lots and 246 residential 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	37,570
4	Lot No. 3077 Title Pajakan Negeri No. 32340, Mukim Pegoh, Alor Gajah, Melaka.	Leasehold	99	18.12.2094	64,588.09	Vacant Land	Nil	29,900
5	No. 48, Jalan Dungun, Damansara Heights, Kuala Lumpur.	Freehold	Nil	Nil	1,595.28	Office Building	27	29,464
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	17	19,692
7	PN 7431 (Lot 7065) & PN 7432 (Lot 7066), Mukim Paka Terengganu.	Leasehold	60	21.05.2095	51,910.00	Resort Hotel/ Apartment	20	15,768
8	65 undeveloped detached house plots of land, Part of Phase 12, A'Famosa Resort Malaysia, Jalan Kemus, Simpang Ampat, Melaka.	Leasehold	99	18.12.2094	54,835.13	Vacant Land	Nil	7,541
9	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	41,682.79	Vacant Land	Nil	5,730
10	Lot No. 328 GERAN 1901 Pekan Klebang Seksyen III, Melaka.	Freehold	Nil	Nil	3,557.02	Vacant Land	Nil	5,223

Financial Statements

106	Directors' Report
112	Statement by Directors
112	Statutory Declaration
113	Independent Auditors' Report
115	Statements of Financial Position
117	Statements of Comprehensive Income
118	Statements of Changes in Equity
120	Statements of Cash Flows
123	Notes to the Financial Statements



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 2014.

Principal activities

The Company is principally engaged in investment holding, money market activities, provision of financing, advancing and financial guarantees on a secured and unsecured basis, which includes Islamic financing, and other related financial services. The principal activities of the subsidiaries are described in Note 11 to the financial statements.

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

Results

	Group RM'000	Company RM'000
Profit for the year	1,015,029	998,049

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in 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 amounts of dividends paid by the Company since 31 December 2013 were as follows:

	RM'000
In respect of the financial year ended 31 December 2013:	
- final taxable dividend of 5% on 2,624,813,600 ordinary shares, declared on 22 April 2014, paid on 5 June 2014	131,240

At the forthcoming Annual General Meeting, a single-tier final dividend of 10% and a single-tier special dividend of 2% in respect of the financial year ended 31 December 2014 on approximately 2,711,277,000 ordinary shares of RM1.00 each as at 6 February 2015, amounting to a total dividend of RM325,353,000 will be proposed for shareholders' approval.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity in the financial year ending 31 December 2015.

The entire portion of the dividend can be elected to be reinvested in new ordinary shares in accordance with the Dividend Reinvestment Plan ("DRP") as disclosed in Note 34 to the financial statements and subject to the relevant regulatory approvals. The DRP was previously approved by the shareholders on 10 December 2013.

Directors

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

Tan Sri Abdul Halim bin Ali
 Datuk Syed Zaid bin Syed Jaffar Albar
 Datuk Shahril Ridza bin Ridzuan
 Encik Aw Hong Boo
 Dato' Jasmy bin Ismail
 Encik Lim Tian Huat
 Cik Ravinder Kaur a/p Mahan Singh

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 was a party whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 30 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Directors' interests

According to the register of directors shareholdings, the interests of directors in office at the end of the financial year in shares of the Company and its related corporations during the financial year were as follows:

Name of director	Number of ordinary shares of RM1.00 each			
	1.1.2014	Acquired	Sold	31.12.2014
Direct interest:				
<i>Ordinary shares of the Company</i>				
Tan Sri Abdul Halim bin Ali	51,428	27,614	-	79,042

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

DIRECTORS' REPORT

Issue of shares

During the financial year, the Company increased its issued and paid up ordinary share capital from RM1,747,868,000 to RM2,709,623,000 by the issuance of approximately 961,755,000 new ordinary shares of RM1.00 each for cash as follows:

	Number of new ordinary shares of RM1.00 each Units '000	RM'000	Issue/ exercise price
Issuance of new shares pursuant to:			
ESOS granted on 11.09.2010	10,230	10,230	1.01
ESOS granted on 09.03.2012	2,618	2,618	1.44
ESOS granted on 15.11.2012	16,579	16,579	2.01
ESOS granted on 09.03.2014	8,688	8,688	2.15
Exercise of Warrants	384	384	1.00
Exercise of Rights Issue	873,929	873,929	1.65
Exercise of Special Issue (DRP)	49,327	49,327	2.03
	961,755	961,755	

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 salient features and other terms of the ESOS are disclosed in Note 22(a) to the financial statements.

Details of all the options to subscribe for ordinary shares of the Company pursuant to the ESOS as at 31 December 2014 are as follows:

Grant date	Expiry date	Exercise price (RM)	Number of options
11.09.2010	11.08.2015	1.01*	1,783,691
09.03.2012	11.08.2015	1.44*	2,617,588
15.11.2012	11.08.2015	2.01*	7,993,170
09.03.2014	11.08.2015	2.15*	15,216,273

* 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 in.

Employee Share Option Scheme (cont'd.)

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of option holders, other than directors, who have been granted options to subscribe for less than 71,496 ordinary shares of RM1.00 each as at the year end. The names of option holders granted options to subscribe for 71,496 or more ordinary shares of RM1.00 each during the financial year are as follows:

Name	Exercise Price RM	Number of Share Options				
		1.1.2014	Granted	Exercised	Lapsed	31.12.2014
Clifford Anthony Clement	2.15	-	423,150	-	423,150	-
Salim Yazan bin Gulzar Mohamed	2.15	-	325,500	30,000	-	295,500
Azlina binti Mohd Abdul Karim @ Alias	2.15	-	195,300	-	-	195,300
Chong Yiow Loong	2.15	-	195,300	97,650	-	97,650
Hairul Affandy bin Ismail	2.15	-	195,300	97,650	-	97,650
Hasliza binti Ismail	2.15	-	195,300	-	-	195,300
Johari bin Mohd Salleh	2.15	-	195,300	97,650	-	97,650
Khoo Swee Chuan	2.15	-	195,300	-	-	195,300
Lee Thiam Sin	2.15	-	195,300	97,650	-	97,650
Md Azhar bin Md Ali	2.15	-	195,300	-	-	195,300
Mohamed Marwan bin Mohamed @ Alias	2.15	-	195,300	97,650	-	97,650
Mohd Affendi bin Mohamed Karim	2.15	-	195,300	97,650	-	97,650
Mohd Ain bin Misran	2.15	-	195,300	30,000	-	165,300
Mohd Jefri bin Mohd Nasir	2.15	-	195,300	97,650	-	97,650
Mohd Yaman bin Ramli	2.15	-	195,300	30,000	-	165,300
Norhafizah binti Mohd Nor	2.15	-	195,300	97,650	-	97,650
Norhizatiulizam binti Mohd Nor	2.15	-	195,300	50,000	-	145,300
Ong Boon Kiat	2.15	-	195,300	97,000	98,300	-
Ruslan bin Abdul Ghani	2.15	-	195,300	33,000	162,300	-
Tai Fook Loong	2.15	-	195,300	-	-	195,300
Ulfat Khasyi'ah binti Baharudin	2.15	-	195,300	30,000	-	165,300
Abd Jamil bin Zainal Abidin	2.15	-	143,220	71,610	-	71,610
Afiq Iskandar bin Razizad	2.15	-	143,220	-	143,220	-
Al Amin bin Che Ain	2.15	-	143,220	71,610	-	71,610
Alif Asraf bin Entali	2.15	-	143,220	-	143,220	-
Amir Syahizal Azwari bin Omar	2.15	-	143,220	-	-	143,220
Azlan bin Talib	2.15	-	143,220	71,610	-	71,610
Azrul Sany bin Ismail	2.15	-	143,220	-	-	143,220
Engku Mohamad Zaki bin Engku Muda Omar	2.15	-	143,220	71,610	-	71,610
Ezwan bin Jaafar	2.15	-	143,220	-	-	143,220
Fazilawati binti Ramly	2.15	-	143,220	-	-	143,220
Harjit Singh A/L Hazura Singh	2.15	-	143,220	10,000	-	133,220
Intan Suhana binti Umar	2.15	-	143,220	71,610	-	71,610
Jamaliah binti Shahabudin	2.15	-	143,220	-	-	143,220
Justin Chua Thiam Huat	2.15	-	143,220	-	-	143,220
Kamsah bin Abdul Majid	2.15	-	143,220	71,610	-	71,610

DIRECTORS' REPORT

Employee Share Option Scheme (cont'd.)

Name	Exercise Price RM	Number of Share Options				
		1.1.2014	Granted	Exercised	Lapsed	31.12.2014
Khairil Amir bin Shuib	2.15	-	143,220	71,610	-	71,610
Kwek Seow Tek	2.15	-	143,220	-	-	143,220
Md Salam bin Talib	2.15	-	143,220	-	143,220	-
Mior Najib bin Meor Zaimi	2.15	-	143,220	36,610	-	106,610
Mohammad Aslam bin Che Mat	2.15	-	143,220	25,000	-	118,220
Mohammad Zaid bin Ismail	2.15	-	143,220	70,000	-	73,220
Mohd Azwan bin Izhar	2.15	-	143,220	71,610	-	71,610
Mohd Fahrul bin Adnan	2.15	-	143,220	71,610	-	71,610
Mohd Hafiz bin Abu Bakar	2.15	-	143,220	71,610	-	71,610
Mohd Khairool Afiq bin Zulkefli	2.15	-	143,220	-	143,220	-
Mohd Syafiq bin Mohd Azmir	2.15	-	143,220	-	-	143,220
Mohd Zailani bin Mohd Zaki	2.15	-	143,220	71,610	-	71,610
Muhamad Fitri Ibni bin Ahmad Saini	2.15	-	143,220	-	143,220	-
Muhamad Shahrul bin Md Sabri	2.15	-	143,220	71,610	-	71,610
Nazri bin Budia	2.15	-	143,220	71,610	-	71,610
Noor Azureen binti Che Din	2.15	-	143,220	71,610	-	71,610
Nuraitul Masni binti Jamaluddin	2.15	-	143,220	71,610	-	71,610
Nuursyakirah binti Md Bohari	2.15	-	143,220	71,610	-	71,610
Rohhayati binti Mohd Atan	2.15	-	143,220	71,610	-	71,610
Seri Banu binti Ramli	2.15	-	143,220	-	-	143,220
Shaharony bin Mat Nor	2.15	-	143,220	-	-	143,220
Siti Rumiah binti Abdul Salam Tafsir	2.15	-	143,220	71,610	-	71,610
Suzaida binti Ahmad Sanusi	2.15	-	143,220	-	-	143,220
Tan Yee Ping	2.15	-	143,220	-	-	143,220
Thanabalan A/L Jakumaran	2.15	-	143,220	71,610	-	71,610
Wan Rohaya binti Mohamed Daud	2.15	-	143,220	-	-	143,220
Zaffazilawaty binti Zainoldin	2.15	-	143,220	71,610	-	71,610

Other statutory information

- (a) Before the statements of financial position and statements of comprehensive income of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

Other statutory information (cont'd.)

- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year other than those arising in the normal course of business of the Group and of the Company as disclosed in Note 37 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.

Auditors

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 16 February 2015.

Tan Sri Abdul Halim bin Ali
Chairman

Aw Hong Boo
Director

Kuala Lumpur, Malaysia

16 February 2015

STATEMENT BY DIRECTORS

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

We, Tan Sri Abdul Halim bin Ali and Aw Hong Boo, being two of the directors of Malaysia Building Society Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 115 to 234 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2014 and of the financial performance and the cash flows of the Group and of the Company for the year then ended.

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 16 February 2015.

Tan Sri Abdul Halim bin Ali
Chairman
Kuala Lumpur, Malaysia

Aw Hong Boo
Director

STATUTORY DECLARATION

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

I, Tang Yow Sai, being the officer primarily responsible for the financial management of Malaysia Building Society Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 115 to 234 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 16 February 2015

Tang Yow Sai

Before me,

INDEPENDENT AUDITORS' REPORT

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

Report on the financial statements

We have audited the financial statements of Malaysia Building Society Berhad, which comprise the statements of financial position as at 31 December 2014 of the Group and of the Company, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 115 to 234.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of financial statements that give a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on other legal and regulatory requirements

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' report of the subsidiary for which we have not acted as auditors, which is indicated in Note 11 to the financial statements, being financial statements that have been included in the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

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

Report on other legal and regulatory requirements (cont'd)

- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Other reporting responsibility

The supplementary information set out in Note 44 on page 234 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance based on the directive of Bursa Malaysia Securities Berhad.

Other matter

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Yeo Beng Yean
No. 3013/10/16(J)
Chartered Accountant

Kuala Lumpur, Malaysia
16 February 2015

STATEMENTS OF FINANCIAL POSITION

As At 31 December 2014

	Note	Group 2014 RM'000	2013 RM'000
Assets			
Cash and short-term funds	5(a)	5,683,939	4,576,711
Deposits and placements with financial institutions	5(b)	83,418	6,953
Trade receivables	6	365	524
Other receivables	7	213,564	187,949
Inventories	8	103,233	28,906
Loans, advances and financing	9	31,032,148	30,296,222
Investment properties	12	-	446
Property, plant and equipment	13	137,773	98,850
Land use rights	14	5,908	6,068
Intangible assets	15	36,129	42,979
Deferred tax assets	21	369,426	3,426
Total assets		37,665,903	35,249,034
Liabilities and shareholders' equity			
Deposits from customers	16	27,530,858	28,192,669
Bank borrowings	17	1,415,844	1,440,319
Other borrowings	17	150,544	250,869
Trade payables	18	184	224
Other payables	19	313,753	323,982
Provision for taxation and zakat		33,867	79,448
Recourse obligation on loans/financing sold	20	2,373,039	2,267,224
Sukuk - MBSB Structured Covered ("SC") Murabahah	10(a)	1,150,124	492,696
Deferred tax liabilities	21	15,277	15,393
Total liabilities		32,983,490	33,062,824
Share capital	22	2,709,623	1,747,868
Share premium	22	1,278,873	631,189
Other reserves	23	36,810	36,670
Retained earnings/(accumulated losses)		657,107	(229,517)
Total equity		4,682,413	2,186,210
Total liabilities and shareholders' equity		37,665,903	35,249,034

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

STATEMENTS OF FINANCIAL POSITION

As At 31 December 2014

	Note	Company 2014 RM'000	2013 RM'000
Assets			
Cash and short-term funds	5(a)	5,657,580	4,553,819
Deposits and placements with financial institutions	5(b)	8,117	6,953
Other receivables	7	239,546	136,874
Inventories	8	900	9,097
Loans, advances and financing	9	31,081,954	30,346,108
Sukuk Commodity Murabahah	10(b)	1,373,565	578,645
Investments in subsidiaries	11(a)	24,644	18,935
Loans to subsidiaries	11(b)	139,938	101,355
Property, plant and equipment	13	59,655	59,984
Intangible assets	15	36,032	42,857
Deferred tax assets/(liabilities)	21	354,375	(11,625)
Total assets		38,976,306	35,843,002
Liabilities and shareholders' equity			
Deposits from customers	16	27,530,858	28,192,669
Bank borrowings	17	1,415,844	1,440,319
Other borrowings	17	150,544	250,869
Other payables	19	1,639,239	914,101
Provision for taxation and zakat		28,725	76,414
Recourse obligation on loans/financing sold	20	2,373,039	2,267,224
Sukuk - MBSB SC Murabahah	10(a)	1,150,124	492,696
Total liabilities		34,288,373	33,634,292
Share capital	22	2,709,623	1,747,868
Share premium	22	1,278,873	631,189
Other reserves	23	36,810	36,670
Retained earnings/(accumulated losses)		662,627	(207,017)
Total equity		4,687,933	2,208,710
Total liabilities and shareholders' equity		38,976,306	35,843,002

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

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	Group		Company	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Revenue	24	2,612,512	2,536,090	2,532,663	2,508,532
Interest income	25	519,387	465,771	502,699	451,735
Interest expense	26	(274,898)	(367,902)	(274,898)	(367,902)
Net interest income		244,489	97,869	227,801	83,833
Net income from Islamic financing operations	42	1,027,404	1,264,864	996,661	1,261,522
Operating income		1,271,893	1,362,733	1,224,462	1,345,355
Other income	27	91,787	140,485	78,395	127,618
Net income		1,363,680	1,503,218	1,302,857	1,472,973
Other operating expenses	28	(304,949)	(295,296)	(263,387)	(255,795)
Operating profit		1,058,731	1,207,922	1,039,470	1,217,178
Allowance for impairment losses on loans, advances and financing	31	(126,175)	(275,573)	(126,175)	(275,573)
Profit before taxation and zakat		932,556	932,349	913,295	941,605
Taxation	32	87,818	(331,104)	90,099	(332,297)
Zakat		(5,345)	(3,677)	(5,345)	(3,677)
Profit for the year		1,015,029	597,568	998,049	605,631
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		1,015,029	597,568	998,049	605,631
Earnings per share (sen)					
Basic	33 (a)	39.15	37.07		
Diluted	33 (b)	38.96	36.76		

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2014

Group	← Non Distributable →							Total
	Ordinary Shares RM'000	Share Premium RM'000	Capital Reserve (Note 23) RM'000	Share Option Reserve (Note 23) RM'000	Warrants Reserve (Note 23) RM'000	Capital Redemption Reserve - Redeemable Cumulative Preference Shares (Note 23) RM'000	(Accumulated Losses) / Retained profits RM'000	
At 1 January 2013	1,240,361	514,098	17,838	2,799	98,207	12,486	(389,143)	1,496,646
Total comprehensive income for the year	-	-	-	-	-	-	597,568	597,568
Dividends (Note 34)	-	-	-	-	-	-	(438,127)	(438,127)
Share options granted under ESOS recognised in profit or loss (Note 29)	-	-	-	7,786	-	-	-	7,786
Issuance of ordinary shares pursuant to exercise of ESOS	20,808	21,672	-	(6,842)	-	-	-	35,638
Issuance of ordinary shares pursuant to exercise of warrants	486,699	95,419	-	-	(94,574)	-	(845)	486,699
Transfer of share option reserve to accumulated losses upon expiry of share options	-	-	-	(1,030)	-	-	1,030	-
At 31 December 2013	1,747,868	631,189	17,838	2,713	3,633	12,486	(229,517)	2,186,210
Total comprehensive income for the year	-	-	-	-	-	-	1,015,029	1,015,029
Dividends (Note 34)	-	-	-	-	-	-	(131,240)	(131,240)
Share options granted under ESOS recognised in profit or loss (Note 29)	-	-	-	12,389	-	-	-	12,389
Issuance of ordinary shares pursuant to exercise of rights issue	873,929	558,448	-	-	-	-	1,027	1,433,404
Issuance of ordinary shares pursuant to exercise of DRP	49,327	50,807	-	-	-	-	-	100,134
Issuance of ordinary shares pursuant to exercise of ESOS	38,115	38,429	-	(10,441)	-	-	-	66,103
Issuance of ordinary shares pursuant to exercise of warrants	384	-	-	-	-	-	-	384
Transfer of share option reserve to retained profits upon expiry of share options	-	-	-	(1,808)	-	-	1,808	-
At 31 December 2014	2,709,623	1,278,873	17,838	2,853	3,633	12,486	657,107	4,682,413

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2014

Company	← Non Distributable →							(Accumulated Losses) / Retained profits RM'000	Total RM'000
	Ordinary Shares RM'000	Share Premium RM'000	Capital Reserve (Note 23) RM'000	Share Option Reserve (Note 23) RM'000	Warrants Reserve (Note 23) RM'000	Capital Redemption Reserve - Redeemable Cumulative Preference Shares (Note 23) RM'000			
At 1 January 2013	1,240,361	514,098	17,838	2,799	98,207	12,486	(374,706)	1,511,083	
Total comprehensive income for the year	-	-	-	-	-	-	605,631	605,631	
Dividends (Note 34)	-	-	-	-	-	-	(438,127)	(438,127)	
Share options granted under ESOS recognised in profit or loss (Note 29)	-	-	-	7,786	-	-	-	7,786	
Issue of ordinary shares pursuant to rights issue	-	-	-	-	-	-	-	-	
Issuance of ordinary shares pursuant to exercise of ESOS	20,808	21,672	-	(6,842)	-	-	-	35,638	
Issuance of ordinary shares pursuant to exercise of warrants	486,699	95,419	-	-	(94,574)	-	(845)	486,699	
Transfer of share option reserve to accumulated losses upon expiry of share options	-	-	-	(1,030)	-	-	1,030	-	
At 31 December 2013	1,747,868	631,189	17,838	2,713	3,633	12,486	(207,017)	2,208,710	
Total comprehensive income for the year	-	-	-	-	-	-	998,049	998,049	
Dividends (Note 34)	-	-	-	-	-	-	(131,240)	(131,240)	
Share options granted under ESOS recognised in profit or loss (Note 29)	-	-	-	12,389	-	-	-	12,389	
Issuance of ordinary shares pursuant to exercise of rights issue	873,929	558,448	-	-	-	-	1,027	1,433,404	
Issuance of ordinary shares pursuant to exercise of DRP	49,327	50,807	-	-	-	-	-	100,134	
Issuance of ordinary shares pursuant to exercise of ESOS	38,115	38,429	-	(10,441)	-	-	-	66,103	
Issuance of ordinary shares pursuant to exercise of warrants	384	-	-	-	-	-	-	384	
Transfer of share option reserve to retained profits upon expiry of share options	-	-	-	(1,808)	-	-	1,808	-	
At 31 December 2014	2,709,623	1,278,873	17,838	2,853	3,633	12,486	662,627	4,687,933	

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

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2014

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Cash flows from operating activities				
Profit before taxation	932,556	932,349	913,295	941,605
Adjustments for:				
Depreciation:				
- investment properties	12	21	-	-
- property, plant and equipment	14,497	13,159	11,203	9,255
Amortisation:				
- land use rights	160	165	-	-
- intangible assets	12,794	11,155	12,754	11,155
Gain on disposal of property, plant and equipment and land use rights	(3)	(6,154)	(3)	(4)
Gain on disposal of inventories	(20,379)	(15,001)	(803)	(15,001)
Gain on disposal of foreclosed properties	(4,050)	-	(4,050)	-
Gain on disposal of investment properties	(166)	-	-	-
Write back of allowance for impairment of investments in subsidiaries	-	-	(5,479)	(2,093)
Allowance/(write back of allowance) for impairment of:				
- amount due from/loans to subsidiaries	-	-	(3,957)	(8,121)
- transfer from individual impairment allowance for loans, advances and financing	-	2,370	-	2,370
- reversal of provision for diminution from foreclosed properties	-	-	(3,271)	-
- provision for doubtful debts	-	-	2,134	-
- unsecured advances in respect of certain projects	30,257	27,253	-	-
- loan commitment fees	-	22	-	22
- Public Low Cost Housing Programme ("PLCHP")	-	18,267	-	18,267
Allowance for impairment losses on loans, advances and financing	126,175	275,573	126,175	275,573
Accruals made during the year	2,074	13,142	2,074	13,142

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2014

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Cash flows from operating activities (cont'd.)				
Interest/profit income adjustment on:				
- loans, advance and financing	265,765	168,844	265,765	168,844
- Sukuk - MBSB SC Murabahah	(2,173)	(431)	(2,173)	(431)
- Sukuk Commodity Murabahah	-	-	(23,110)	(508)
Operating profit before working capital changes	1,357,519	1,440,734	1,290,554	1,414,075
Increase in deposits with financial institutions with maturity of more than one month	(76,465)	(1,599)	(1,164)	(1,599)
Increase in loans, advances and financing	(897,841)	(6,520,042)	(867,921)	(6,520,811)
Decrease/(increase) in trade receivables	159	(117)	-	-
(Increase)/decrease in other receivables	(55,868)	126,352	(101,536)	22,253
(Decrease)/increase in deposits from customers	(661,811)	6,698,570	(661,811)	6,698,570
(Decrease)/increase in trade payables	(40)	29	-	-
(Decrease)/increase in other payables	(68,104)	34,651	667,263	608,634
(Increase)/decrease in loans to subsidiaries	-	-	(34,626)	163,260
Cash (used in)/generated from operations	(402,451)	1,778,578	290,759	2,384,382
Tax paid	(334,100)	(307,087)	(334,100)	(295,438)
Tax refund	103	5	-	-
Zakat paid	(3,620)	(1,708)	(3,620)	(1,708)
Net cash (used in)/generated from operating activities	(740,068)	1,469,788	(46,961)	2,087,236

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2014

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Cash flows from investing activities				
Purchase of property, plant and equipment	(53,420)	(11,929)	(10,874)	(11,692)
Purchase of inventories	(111,804)	-	-	-
Purchase of intangible assets	(11,252)	(12,766)	(11,237)	(12,766)
Investment in subsidiary	-	-	(230)	-
Proceeds from disposal of property, plant and equipment and land use rights	3	36,606	3	-
Proceeds from disposal of investment properties	600	-	-	-
Proceeds from disposal of foreclosed properties	4,050	-	4,050	-
Proceeds from disposal of inventories	24,458	47,000	7,394	47,000
Decrease in investments held-to-maturity	-	200,000	-	200,000
Investment in Sukuk Commodity Murabahah	-	-	(833,045)	(578,137)
Net cash (used in)/generated from investing activities	(147,365)	258,060	(843,939)	(355,595)
Cash flows from financing activities				
(Repayment)/drawdown of bank borrowings	(24,475)	1,090,102	(24,475)	1,090,102
Repayment of other borrowings	(100,325)	(100,334)	(100,325)	(100,334)
Proceeds from/(repayment of) recourse obligation on loans/financing sold	105,815	(94,773)	105,815	(94,773)
Proceeds from Sukuk - MBSB SC Murabahah	535,449	491,966	535,449	491,966
Dividends paid on ordinary shares	(131,240)	(438,127)	(131,240)	(438,127)
Net proceeds from issuance of ordinary shares	1,609,437	624,598	1,609,437	624,598
Net cash generated from financing activities	1,994,661	1,573,432	1,994,661	1,573,432
Net increase in cash and cash equivalents	1,107,228	3,301,280	1,103,761	3,305,073
Cash and cash equivalents at beginning of year	4,576,711	1,275,431	4,553,819	1,248,746
Cash and cash equivalents at end of year (Note 5(a))	5,683,939	4,576,711	5,657,580	4,553,819
Cash and cash equivalents is represented by:				
Cash and short-term funds	5,679,586	4,572,437	5,657,580	4,553,819
Cash held pursuant to Section 7A of the Housing Development Act (Note 5)	4,353	4,274	-	-
Cash and cash equivalents at end of year (Note 5(a))	5,683,939	4,576,711	5,657,580	4,553,819

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

1. Corporate information

The Company is a public limited liability company, incorporated under the Companies Act, 1965, domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at 11th Floor, Wisma MBSB, 48, Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur.

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

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

The principal activities of the subsidiaries are described in Note 11. There have been no significant changes in the nature of the principal activities of the Company and its subsidiaries during the financial year. The Company acquired one new subsidiary, 88 Legacy Sdn. Bhd. during the year, as disclosed in Note 11.

The consolidated and separate financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 16 February 2015.

2. Summary of significant accounting policies

(a) Basis of preparation

The consolidated and separate financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia. These consolidated and separate financial statements also comply with International Accounting Standards ("IAS").

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 refers generally to the acceptance of deposits and granting of financing under the principles of Shariah. Disclosures relating to the Islamic banking operations are disclosed in Note 42.

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

(b) Subsidiaries and basis of consolidation

(i) Subsidiaries

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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

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

(ii) Basis of consolidation

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

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

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

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

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

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

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

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

(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 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 of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the disposed operations and the portion of the cash-generating unit retained.

(ii) Other intangible assets

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

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

Intangible assets with indefinite useful lives or 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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

(c) Intangible assets (cont'd.)

(ii) Other intangible assets (cont'd.)

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

Software licences

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

Land use rights

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

(d) Property, plant and equipment and depreciation

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

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

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

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

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

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

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

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

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

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

(e) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

(iii) Employee share option scheme

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

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

(f) Investment properties

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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

(f) Investment properties (cont'd.)

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 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 maturing within one month which are subject to an insignificant risk of change in value.

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

(j) Impairment of non-financial assets

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

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

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

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

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 except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that a previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there have 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 unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

(k) Financial assets

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

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

(i) Loans and receivables

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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

(k) Financial assets (cont'd.)

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

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

(l) Impairment of financial assets

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

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

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

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

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

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

(m) Financial liabilities

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

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

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

(m) Financial liabilities (cont'd.)

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

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

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

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

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

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

(n) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

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

(o) Warrants

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

(p) Financial guarantee contracts

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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

(q) Revenue recognition

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

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

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

(ii) Sale of properties

Revenue from sale of completed properties is recognised upon transfer of significant risks and rewards of ownership to the buyer.

(iii) Fee income

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

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

(iv) Dividend income

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

(v) 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.

(vi) Other income

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

(r) Income tax

(i) Current tax

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

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

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

(r) Income tax (cont'd.)

(ii) Deferred tax

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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

(s) Fair value measurement

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

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

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

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

The Group and the Company 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) New, amended and revised MFRSs and IC Interpretations effective for annual periods on or after 1 January 2014

On 1 January 2014, the Group and the Company adopted the following MFRSs, Amendments to MFRSs, Issues Committee ("IC") Interpretations and Technical Release ("TR") mandatory for annual financial periods beginning on or after 1 January 2014:

Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting
IC Interpretation 21 Levies

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

(i) Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and "simultaneous realisation and settlement". These amendments are to be applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

(ii) Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under MFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under MFRS 10.

(iii) Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets

The amendments to MFRS 136 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives has been allocated when there has been no impairment or reversal of impairment of the related CGU. In addition, the amendments introduce additional disclosure requirements when the recoverable amount is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by MFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's and the Company's financial statements.

(b) Standards and interpretations issued but not yet effective

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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

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

Description	Effective for annual periods beginning on or after
Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010 - 2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011 - 2013 Cycle	1 July 2014
Annual Improvements to MFRSs 2012 - 2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016
MFRS 15 Revenue from Contracts with Customers	1 January 2017
MFRS 9 Financial Instruments	1 January 2018

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

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

The Group and the Company plan to apply the abovementioned standard when they become effective:

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

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of an asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to MFRS 127: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associate in their separate financial statements. Entities already applying MFRS and electing to change to the equity method in its separate financial statements will have to apply this change retrospectively. For first-time adopters of MFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to MFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's and the Company's financial statements.

Amendments to MFRS 101: Disclosure Initiatives

The amendments to MFRS 101 include narrow-focus improvements in the following five areas:

- i) Materiality
- ii) Disaggregation and subtotals
- iii) Notes structure
- iv) Disclosure of accounting policies
- v) Presentation of items of other comprehensive income arising from equity accounted investments

The Directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group's and the Company's financial statements.

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

The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments further clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. In addition, the amendments also provides that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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

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

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Directors anticipate that the application of MFRS 15 will have a material impact on the amounts reported and disclosures made in the Group's and the Company's financial statements. The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

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.

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

(a) Critical judgements made in applying accounting policies (cont'd.)

In line with the Principal Terms and Condition of the Sukuk - MBSB SC Murabahah programme of the Group (as detailed in Note 10 (a)), Sukuk - MBSB SC Murabahah and Sukuk Commodity Murabahah will be issued in tranches from time to time, as decided by management and each tranche is required to be backed by a portfolio of identified PFI held by JKSB. The portfolio of identified PFI is purchased by JKSB from the Company on an arm's length basis. Management has considered the derecognition criteria prescribed in MFRS 139 *Financial Instruments: Recognition and Measurement*, specifically, if the sale of PFI by the Company to JKSB would meet the derecognition criteria as stipulated in the standard.

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 have evaluated the extent to which the Company retains the risks and rewards of ownership of the PFI. As the Principal Terms and Conditions require the replacement of defaulted PFI with performing PFI, management had concluded that the risks and rewards of ownership of the PFI continue to be retained by the Company. Accordingly, the sale of the PFI to JKSB does not meet the criteria for derecognition and has not been derecognised in the financial statements of the Company. Instead, an amount equivalent to the carrying value of the the pledged PFI has been recognised in the financial statements of the Company as an amount due to JKSB 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.

(b) Key sources of estimation uncertainty

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

(i) Impairment of loans, advances and financing and other receivables

The Group and the Company review its individually significant loans, advances and financing and other receivables at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group and the Company make judgements about the borrower's or the customer's financial situation and the net realisable value of collateral and future recoverable cash flows in workout/restructuring agreements. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowances.

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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

(b) Key sources of estimation uncertainty (cont'd.)

(ii) Employee benefits

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions, sensitivity analysis and the carrying amounts are disclosed in Note 22(a).

(iii) Impairment of investments in subsidiaries

The Group assesses whether there is any indication that investments in subsidiaries may be impaired at each reporting date.

If indicators are present, these investments are subject to impairment review. The impairment review comprises a comparison of the carrying amounts of the investment and the investment's estimated recoverable amounts.

Judgements made by management in the process of applying the Group's accounting policies in respect of investments in subsidiaries are as follows:

- (i) The Group determines whether its investments are impaired following certain indications of impairment such as, amongst others, prolonged shortfall between market value and carrying amount, significant changes with adverse effects on the investment and deteriorating financial performance of the investment due to observed changes and in the economic environment; and
- (ii) Depending on their nature and the location in which the investments relate to, judgements are made by management to select suitable methods of valuation such as discounted future cash flows.

Once a suitable method of valuation is selected, management makes certain assumptions concerning the future to estimate the recoverable amount of the specific individual investment. Depending on the specific individual investment, assumptions made by management may include, amongst others, assumptions on expected future cash flows, revenue growth, terminal value, discount rate used for purposes of discounting future cash flows which incorporates the relevant risks and expected future outcome based on certain past trends.

Management believes that no reasonably expected possible change in the key assumptions described above would cause the carrying amounts of the investments to materially exceed their recoverable amounts.

(iv) Recognition of deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies. Assumptions about generation of future taxable profits depend on management's estimates of future cash flows.

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
(a) Cash and short-term funds:				
Cash at banks and on hand	393,345	243,958	370,449	224,424
Money at call	2,338,246	1,855,267	2,338,246	1,855,267
Deposits and placements with financial institutions with maturity of less than one month	2,952,348	2,477,486	2,948,885	2,474,128
Total cash and short-term funds	5,683,939	4,576,711	5,657,580	4,553,819
(b) Deposits and placements with financial institutions with maturity of more than one month	83,418	6,953	8,117	6,953
Total cash and short-term funds and deposits and placements financial institutions	5,767,357	4,583,664	5,665,697	4,560,772

Included in cash at banks of the Group is an amount of RM4,353,073 (2013: RM4,273,771) held pursuant to Section 7A of the Housing Development (Control and Licensing) Act, 1966 and therefore restricted from use in other operations.

Short-term deposits are made for varying periods of between 1 day and 1 year depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective short-term deposits rates. The weighted average effective interest rate as at 31 December 2014 for the Group was 3.97% (2013: 3.33%) and the Company was 3.48% (2013: 3.33%) per annum respectively.

6. Trade receivables

	Group	
	2014 RM'000	2013 RM'000
Gross balance	25,175	25,334
Less: Allowance for impairment	(24,810)	(24,810)
Net balance	365	524

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

6. Trade receivables (cont'd.)

Movements in allowance for impairment are as follows:

	Group	
	2014 RM'000	2013 RM'000
Balance as at 1 January	24,810	24,830
Reversal of impairment losses (Note 28)	-	(20)
Balance as at 31 December	24,810	24,810

Trade receivables are non-interest bearing and credit terms provided are generally on 7 to 30 days (2013: 7 to 30 days) term.

7. Other receivables

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Advances in respect of certain projects	304,799	274,543	-	-
Loan commitment fees	8,740	8,740	8,740	8,740
Amount due from subsidiaries	-	-	144,864	52,376
Foreclosed properties	139,658	144,414	139,658	144,414
Prepayments and deposits	7,777	9,653	6,919	4,183
Sundry receivables	64,584	33,465	42,469	29,777
Deferred expenses due to issuance of Sukuk Commodity Murabahah	178	179	-	-
Deferred expenses due to issuance of Sukuk - MBSB SC Murabahah	3,425	3,432	3,425	3,432
	529,161	474,426	346,075	242,922
Less: Allowance for impairment	(315,597)	(286,477)	(106,529)	(106,048)
	213,564	187,949	239,546	136,874

7. Other receivables (cont'd.)

Movements in allowance for impairment are as follows:

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Balance as at 1 January	286,477	238,565	106,048	84,114
Transfer from individual impairment allowance for loans, advances and financing (Note 9(vi))	-	2,370	-	2,370
Reversal of provision for diminution from foreclosed properties	(3,271)	-	(3,271)	-
Charge for the year:				
Advances in respect of certain projects (Note 28)	30,257	27,253	-	-
Amount due from subsidiaries	-	-	1,618	1,275
Commission fees	2,134	-	2,134	-
Loan commitment fees	-	22	-	22
Public Low Cost Housing Program ("PLCHP")	-	18,267	-	18,267
Balance as at 31 December	315,597	286,477	106,529	106,048

Details of allowance for impairment are as follows:

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Advances in respect of certain projects	241,060	210,803	-	-
Loan commitment fees	8,740	8,740	8,740	8,740
Amount due from subsidiaries	-	-	36,181	34,563
PLCHP	23,118	23,118	23,118	23,118
Sundry receivables	12,481	10,347	8,292	6,158
Foreclosed properties	30,198	33,469	30,198	33,469
	315,597	286,477	106,529	106,048

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% (2013: 10.50%) per annum.

The amount due from subsidiaries is unsecured, bears weighted interest of 6.48% (2013: 3.76%) per annum and is repayable on demand.

The credit risk of other receivables of the Group and the Company are mitigated by the collateral held against the other receivables and would reduce the extent of impairment allowance for the assets subject to impairment review. In this respect, the individual impairment allowance as at the reporting date would be higher by approximately RM109,460,000 (2013: RM106,992,000) without the mitigating effect of collateral held.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

7. Other receivables (cont'd.)

Included in prepayments and deposits of the Group and of the Company are rental deposits paid to the Employees Provident Fund ("EPF"), the ultimate holding body, amounting to RM94,125 (2013: RM97,603).

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

8. Inventories

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At cost:				
Hotel inventories	170	285	-	-
At net realisable value:				
Freehold land held for sale	103,063	28,621	900	9,097
	103,063	28,621	900	9,097
Total inventories	103,233	28,906	900	9,097

9. Loans, advances and financing

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
End finance:				
Normal housing programme	3,562,253	3,594,313	3,562,253	3,594,313
Low cost housing programme	17,961	18,127	17,961	18,127
Islamic:				
Property	1,699,574	1,744,117	1,699,574	1,744,117
Personal	23,395,418	23,387,568	23,395,418	23,387,568
Auto finance	280,344	206,728	280,344	206,728
Bridging, structured and term loans and financing	3,677,660	2,924,769	3,961,726	3,208,915
Staff loans	45,364	39,918	45,364	39,918
Gross loans, advances and financing	32,678,574	31,915,540	32,962,640	32,199,686
Allowance for impairment:				
- Collectively assessed	(1,437,747)	(1,318,453)	(1,437,747)	(1,318,453)
- Individually assessed	(208,679)	(300,865)	(442,939)	(535,125)
Net loans, advances and financing	31,032,148	30,296,222	31,081,954	30,346,108

9. Loans, advances and financing (cont'd.)

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

	Company	
	2014 RM'000	2013 RM'000
Loans to subsidiaries	37,773	60,998

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

	Group and Company	
	2014 RM'000	2013 RM'000
Islamic financing facility granted by:		
EPF (Note 17)	316,760	578,642
Recourse obligation on loans sold to Cagamas Berhad (Note 20)	1,909,567	2,433,712
Sukuk - MBSB SC Murabahah* (Note 10(a))	1,302,779	574,487

* The Islamic personal financing charged to Sukuk - MBSB SC Murabahah relate to Islamic personal financing sold to a subsidiary, JKSB, amounting to RM570,637,000 as at the selling date of 1 December 2013 for Tranche 1 and RM833,045,000 as at selling date of 1 November 2014 for Tranche 2.

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Maturing within one year	1,691,198	1,862,220	1,691,198	1,862,220
One year to three years	592,130	662,994	592,130	662,994
Three years to five years	769,799	877,312	769,799	877,312
Over five years	29,625,447	28,513,014	29,909,513	28,797,160
	32,678,574	31,915,540	32,962,640	32,199,686

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

9. Loans, advances and financing (cont'd.)

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Purchase of residential properties	5,011,516	5,078,238	5,011,516	5,078,238
Purchase of non-residential properties	291,085	298,725	291,085	298,725
Personal use	23,416,107	23,405,091	23,416,107	23,405,091
Property development	2,070,967	2,331,940	2,070,967	2,616,086
Working capital	817,857	326,616	817,857	326,616
Purchase of transport vehicles	282,202	208,716	282,202	208,716
Others	788,840	266,214	1,072,906	266,214
	32,678,574	31,915,540	32,962,640	32,199,686

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Domestic non-bank financial institutions	-	151,267	-	151,267
Domestic business enterprises:				
- Small medium enterprises	1,318,941	2,868,796	1,318,941	3,152,942
- Others	2,474,248	65,559	2,758,314	65,559
Individuals	28,885,385	28,829,918	28,885,385	28,829,918
	32,678,574	31,915,540	32,962,640	32,199,686

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Fixed rate:				
Personal financing	23,401,781	14,689,383	23,401,781	14,689,383
Auto finance	282,202	208,716	282,202	208,716
Mortgage and property islamic	937,824	-	937,824	-
Bridging, structured and term loans and financing	540,241	48,215	540,241	48,215
Variable rate:				
Cost of fund plus	7,516,526	16,969,226	7,800,592	17,253,372
	32,678,574	31,915,540	32,962,640	32,199,686

9. Loans, advances and financing (cont'd.)

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Balance as at 1 January	1,648,383	3,000,789	1,932,532	3,288,281
Classified as impaired during the year*	3,479,877	982,861	3,479,795	979,518
Reclassified as non-impaired	(2,744,898)	(946,634)	(2,744,898)	(946,634)
Amount recovered	(168,422)	(47,783)	(168,422)	(47,783)
Amount written off	(69,147)	(1,340,850)	(69,147)	(1,340,850)
Balance as at 31 December	2,145,793	1,648,383	2,429,860	1,932,532
Collective allowance	(839,425)	(467,904)	(839,425)	(467,904)
Individual allowance	(48,774)	(159,610)	(283,035)	(393,869)
Allowance for impairment	(888,199)	(627,514)	(1,122,460)	(861,773)
Net impaired loans, advances and financing	1,257,594	1,020,869	1,307,400	1,070,759
Net impaired loans as a percentage of net loans, advances and financing	4.1%	3.4%	4.2%	3.5%

* Six (6) months impaired loans/financing classification as at 31 December 2013 and three (3) months classification as at 31 December 2014

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

	Group and Company	
	2014 RM'000	2013 RM'000
Collective Impairment		
Balance as at 1 January	1,318,453	1,013,214
Impairment during the year (Note 31)	119,294	305,239
Balance as at 31 December	1,437,747	1,318,453

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

9. Loans, advances and financing (cont'd.)

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Individual Impairment				
Balance as at 1 January	300,865	1,684,059	535,125	1,918,319
Impairment/(write back of impairment) during the year (Note 31)	7,824	(32,173)	7,824	(32,173)
Written off	(94,032)	(1,348,651)	(94,032)	(1,348,651)
Transfer to impairment for foreclosed properties (Note 7)	-	(2,370)	-	(2,370)
Transfer to subsidiaries	(5,978)	-	(5,978)	-
Balance as at 31 December	208,679	300,865	442,939	535,125

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Purchase of residential properties	1,080,179	804,588	1,080,179	804,588
Purchase of non-residential properties	87,068	59,942	87,068	59,942
Personal use	871,761	458,362	871,761	458,362
Property development	4,784	319,687	4,784	603,836
Working capital	53,370	-	53,370	-
Purchase of transport vehicles	16,474	5,804	16,474	5,804
Others	32,157	-	316,224	-
	2,145,793	1,648,383	2,429,860	1,932,532

9. Loans, advances and financing (cont'd.)

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Domestic business enterprises:				
- Small medium enterprises	25,104	304,687	25,104	588,836
- Others	105,669	34,799	389,736	34,799
Individuals	2,015,020	1,308,897	2,015,020	1,308,897
	2,145,793	1,648,383	2,429,860	1,932,532

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 be higher by approximately RM110,340,000 (2013: RM251,396,000) without the mitigating effect of collateral held.

10. Sukuk - MBSB SC Murabahah and Sukuk Commodity Murabahah**(a) Sukuk - MBSB SC Murabahah**

	Group and Company	
	2014 RM'000	2013 RM'000
Sukuk - MBSB SC Murabahah	1,150,124	492,696
Maturity of Sukuk - MBSB SC Murabahah:		
Within one year	115,001	40,407
More than one year	1,035,123	452,289
	1,150,124	492,696

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

10. Sukuk - MBSB 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");
- (iv) JKSB will issue an unconditional and irrevocable Covered Sukuk Guarantee to the holders of the Sukuk - MBSB SC Murabahah;
- (v) 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;
- (vi) 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
- (vii) From time to time, additional Tranche Cover Assets will be purchased by JKSB in line with additional Tranches drawdown by MBSB.

(b) Sukuk Commodity Murabahah

	Company	
	2014	2013
	RM'000	RM'000
Sukuk Commodity Murabahah	1,373,565	578,645

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

- (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.

10. Sukuk - MBSB 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. The repayment of the Sukuk - MBSB SC Murabahah is disclosed in Note 38.

11. Investments in subsidiaries and loans to subsidiaries**(a) Investments in subsidiaries**

	Company	
	2014 RM'000	2013 RM'000
Unquoted shares at cost	118,397	118,167
Less: Accumulated impairment losses	(93,753)	(99,232)
	24,644	18,935

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

11. Investments in subsidiaries and loans to subsidiaries (cont'd.)

(a) Investments in subsidiaries

Details of the subsidiaries are as follows:

Name of subsidiaries	Effective interest held (%)		Principal activities
	2014	2013	
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
Ganesha Sdn. Bhd.	100	100	Property development
Springtide Sdn. Bhd.	100	100	Dormant
Trimonds Sdn. Bhd.	100	100	Dormant
MBSB Project Management Sdn. Bhd.	100	100	Ceased operations
Definite Pure Sdn. Bhd.	100	100	Dormant
Malaya Borneo Building Society Limited ("MBBS") *	100	100	Dormant
Farawide Sdn. Bhd.	100	100	Hotel operations services
Raynergy Sdn. Bhd.	100	100	Dormant
Idaman Usahamas Sdn. Bhd.	100	100	Property development
Ombak Pesaka Sdn. Bhd.	100	100	Hotel operations
MBSB Tower Sdn. Bhd.	100	100	Property development
Home Approach Sdn. Bhd.	100	100	Dormant
Jana Kapital Sdn. Bhd.	100	100	Investment holding
88 Legacy Sdn. Bhd.	100	-	Property development

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

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

11. Investments in subsidiaries and loans to subsidiaries (cont'd.)

(b) Loans to subsidiaries

	Company	
	2014 RM'000	2013 RM'000
Secured	51,251	12,719
Unsecured	191,591	183,564
	242,842	196,283
Less: Allowance for impairment	(102,904)	(94,928)
	139,938	101,355

Movements in the allowance for impairment are as follows:

	Company	
	2014 RM'000	2013 RM'000
Balance as at 1 January	94,928	91,126
Charge/(reversal) for the year		
Secured	573	(32,921)
Unsecured	7,403	36,723
Total charge for the year (Note 28)	7,976	3,802
Balance as at 31 December	102,904	94,928
Details of the allowance for impairment are as follows:		
Secured	7,383	6,810
Unsecured	95,521	88,118
	102,904	94,928

The loans to subsidiaries are repayable on demand and certain loans to subsidiaries are secured against landed properties of the subsidiaries with the net book value amounting to RM4,016,000 (2013: RM4,202,000). The weighted average effective interest rates of loans to subsidiaries at the reporting date was 3.70% (2013: 3.76%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

12. Investment properties

	Group	
	2014 RM'000	2013 RM'000
At cost:		
At 1 January	1,076	1,076
Disposals	(1,076)	-
At 31 December	-	1,076
Accumulated depreciation and impairment loss:		
At 1 January	(630)	(609)
Depreciation charge for the year (Note 28)	(12)	(21)
Disposals	642	-
At 31 December	-	(630)
Net book value:		
At 31 December	-	446

Investment properties consisted of a property held at Taman Delima Raya, Melaka. This property was sold during the year for proceeds of RM600,000 to third party.

Investment properties are measured at cost. The fair value of the investment properties as at 31 December 2013 amounted to approximately RM519,000, which have been determined based on valuations as at 19 February 2013. The fair value of investment properties are categorised under Level 2 of the fair value hierarchy as the valuations were mainly performed based on the comparison method makes reference to comparable properties which had been sold or are being offered for sale in the vicinity.

13. Property, plant and equipment

Group	Freehold land RM'000	Buildings in progress RM'000	Buildings RM'000	Building renovation RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Data processing equipment RM'000	Total RM'000
Cost								
At 1 January 2014	6,217	-	103,718	29,669	28,220	839	33,155	201,818
Additions	-	42,415	-	5,949	3,704	-	1,352	53,420
Disposals	-	-	-	-	(11)	-	(335)	(346)
At 31 December 2014	6,217	42,415	103,718	35,618	31,913	839	34,172	254,892
Accumulated depreciation and impairment losses								
At 1 January 2014:								
Accumulated depreciation	-	-	8,446	18,824	23,320	515	17,205	68,310
Accumulated impairment losses	371	-	34,287	-	-	-	-	34,658
Depreciation charge for the year (Note 28)	371	-	42,733	18,824	23,320	515	17,205	102,968
Disposals	-	-	3,093	4,536	2,171	161	4,536	14,497
Disposals	-	-	-	-	(11)	-	(335)	(346)
At 31 December 2014	371	-	45,826	23,360	25,480	676	21,406	117,119
Analysed as:								
Accumulated depreciation	-	-	11,539	23,360	25,480	676	21,406	82,461
Accumulated impairment losses	371	-	34,287	-	-	-	-	34,658
	371	-	45,826	23,360	25,480	676	21,406	117,119
Net book value								
At 31 December 2014	5,846	42,415	57,892	12,258	6,433	163	12,766	137,773

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

13. Property, plant and equipment (cont'd.)

Group	Freehold land RM'000	Buildings RM'000	Building renovation RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Data processing equipment RM'000	Total RM'000
Cost							
At 1 January 2013	15,824	180,224	22,528	25,823	665	32,277	277,341
Additions	-	-	7,285	3,076	174	1,394	11,929
Disposals	(9,607)	(76,506)	(144)	(679)	-	(516)	(87,452)
At 31 December 2013	6,217	103,718	29,669	28,220	839	33,155	201,818
Accumulated depreciation and impairment losses							
At 1 January 2013:							
Accumulated depreciation	-	60,552	15,569	22,363	365	13,302	112,151
Accumulated impairment losses	371	34,287	-	-	-	-	34,658
Depreciation charge for the year (Note 28)	-	3,591	3,399	1,600	150	4,419	13,159
Disposals	-	(55,697)	(144)	(643)	-	(516)	(57,000)
At 31 December 2013	371	42,733	18,824	23,320	515	17,205	102,968
Analysed as:							
Accumulated depreciation	-	8,446	18,824	23,320	515	17,205	68,310
Accumulated impairment losses	371	34,287	-	-	-	-	34,658
	371	42,733	18,824	23,320	515	17,205	102,968
Net book value							
At 31 December 2013	5,846	60,985	10,845	4,900	324	15,950	98,850

13. Property, plant and equipment (cont'd.)

Company	Freehold land RM'000	Buildings RM'000	Building renovation RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Data processing equipment RM'000	Total RM'000
Cost							
At 1 January 2014	9,968	18,946	22,652	14,241	564	32,218	98,589
Additions	-	-	5,894	3,660	-	1,320	10,874
Disposals	-	-	-	(11)	-	(335)	(346)
At 31 December 2014	9,968	18,946	28,546	17,890	564	33,203	109,117
Accumulated depreciation							
At 1 January 2014:							
Accumulated depreciation	-	1,540	10,998	9,267	294	16,506	38,605
Depreciation charge for the year (Note 28)	-	474	4,193	1,928	92	4,516	11,203
Disposals	-	-	-	(11)	-	(335)	(346)
At 31 December 2014	-	2,014	15,191	11,184	386	20,687	49,462
Net book value							
At 31 December 2014	9,968	16,932	13,355	6,706	178	12,516	59,655
Company							
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 2013	9,968	18,946	15,367	11,410	390	31,272	87,353
Additions	-	-	7,285	2,847	174	1,393	11,699
Disposals	-	-	-	(16)	-	(447)	(463)
At 31 December 2013	9,968	18,946	22,652	14,241	564	32,218	98,589
Accumulated depreciation							
At 1 January 2013:							
Accumulated depreciation	-	1,066	7,999	7,980	213	12,551	29,809
Depreciation charge for the year (Note 28)	-	474	2,999	1,299	81	4,402	9,255
Reversal/reclassification (Note 28)	-	-	-	(12)	-	(447)	(459)
At 31 December 2013	-	1,540	10,998	9,267	294	16,506	38,605
Net book value							
At 31 December 2013	9,968	17,406	11,654	4,974	270	15,712	59,984

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

13. Property, plant and equipment (cont'd.)

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Pending subdivision of titles	658	687	-	-

14. Land use rights

	Group	
	2014 RM'000	2013 RM'000
Cost:		
At 1 January	8,428	11,718
Disposal	-	(3,290)
At 31 December	8,428	8,428
Accumulated amortisation:		
At 1 January	2,360	2,262
Amortisation for the year (Note 28)	160	165
Disposal	-	(67)
At 31 December	2,520	2,360
Net carrying amount	5,908	6,068
Amount to be amortised:		
- Not later than one year	160	165
- Later than one year but not later than five years	640	660
- Later than five years	5,108	5,243
	5,908	6,068

15. Intangible assets

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Software licences				
Cost				
At 1 January	66,382	59,806	66,002	59,426
Additions	5,461	6,576	5,446	6,576
At 31 December	71,843	66,382	71,448	66,002
Accumulated depreciation and impairment losses				
At 1 January	23,403	12,414	23,145	12,197
Amortisation for the year (Note 28)	12,311	10,989	12,271	10,948
At 31 December	35,714	23,403	35,416	23,145
Net book value				
At 31 December	36,129	42,979	36,032	42,857

16. Deposits from customers

	Group and Company	
	2014 RM'000	2013 RM'000
By type of products:		
Savings	117,323	108,713
Fixed deposits	27,413,535	28,083,956
	27,530,858	28,192,669
By type of customers:		
Government and statutory bodies	19,318,499	20,141,023
Business enterprises	5,906,404	5,794,672
Individuals	2,305,955	2,256,974
	27,530,858	28,192,669
Maturity of deposits from customers:		
Within one year	25,159,654	25,812,374
More than one year	2,371,204	2,380,295
	27,530,858	28,192,669

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

17. Bank and other borrowings

	Group and Company	
	2014	2013
	RM'000	RM'000
Total borrowings		
Bank borrowings	1,415,844	1,440,319
Other borrowings	150,544	250,869
	1,566,388	1,691,188
Maturity of borrowings:		
Within one year	1,516,388	1,549,682
Within one to five years	50,000	141,506
	1,566,388	1,691,188

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

	Group and Company	
	2014	2013
	%	%
Bank borrowings	4.34	4.05
Other borrowings	5.50	5.50

Bank borrowings represent unsecured revolving credit and interest charged on these borrowings from licensed commercial banks based on the lenders' cost of funds plus 0.50% to 1% (2013: 0.50% to 1%). The bank borrowings are due within one year.

Other borrowings relate to Islamic financing facilities granted by EPF and secured on a portfolio of PFI advances amounting to RM316,760,000 (2013: RM578,642,000) as disclosed in Note 9.

18. Trade payables

Trade payables are unsecured and non-interest bearing. The normal trade credit terms granted to the Group range from 30 to 60 (2013: 30 to 60) days.

19. Other payables

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Due to subsidiaries	-	-	24,676	17,800
Al-Mudharabah security deposit	94,946	98,592	94,946	98,592
Amount due to a subsidiary, Jana Kapital Sdn. Bhd. ("JKSB")	-	-	1,302,779	574,487
Accruals	53,002	51,327	52,515	50,410
Commission payable	-	204	-	204
Deferred income	102,099	142,146	102,099	142,146
Others	63,706	31,713	62,224	30,462
	313,753	323,982	1,639,239	914,101

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

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

20. Recourse obligation on loans/financing sold

	Group and Company	
	2014 RM'000	2013 RM'000
Repayments due within 12 months	101,888	97,230
Repayments due after 12 months	2,271,151	2,169,994
	2,373,039	2,267,224

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

21. Deferred tax (assets)/liabilities

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At 1 January	11,967	11,426	11,625	6,097
Recognised in profit or loss (Note 32)	(366,116)	541	(366,000)	5,528
At 31 December	(354,149)	11,967	(354,375)	11,625
Presented after appropriate offsetting as follows:				
Deferred tax liabilities	15,277	15,393	-	11,625
Deferred tax assets	(369,426)	(3,426)	(354,375)	-
	(354,149)	11,967	(354,375)	11,625

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

Deferred tax (assets)/liabilities of the Group:

	Fair value adjustment arising from business, combination RM'000	Property, plant and equipment RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2013	5,026	16,273	(9,873)	11,426
Recognised in profit or loss (Note 32)	-	-	541	541
At 1 January 2014	5,026	16,273	(9,332)	11,967
Recognised in profit or loss (Note 32)	-	-	(366,116)	(366,116)
At 31 December 2014	5,026	16,273	(375,448)	(354,149)

21. Deferred tax (assets)/liabilities (cont'd.)**Deferred tax (assets)/liabilities of the Company:**

	Accelerated capital allowances RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2013	16,420	(10,323)	6,097
Recognised in profit or loss (Note 32)	-	5,528	5,528
At 1 January 2014	16,420	(4,795)	11,625
Recognised in profit or loss (Note 32)	-	(366,000)	(366,000)
At 31 December 2014	16,420	(370,795)	(354,375)

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Unused tax losses	66,277	43,316	-	-
Collective impairment losses	-	329,612	-	329,612
Unabsorbed capital allowances	31,927	10,585	-	-
Others	7,939	-	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

22. Share capital and share premium

Share capital

Group and Company

	Number of Shares of RM1.00 Each		Amount	
	2014 Units'000	2013 Units'000	2014 RM'000	2013 RM'000
Authorised:				
- Ordinary Shares				
At 1 January	10,000,000	2,800,000	10,000,000	2,800,000
Increase during the year	-	7,200,000	-	7,200,000
At 31 December	10,000,000	10,000,000	10,000,000	10,000,000
Ordinary shares Issued and fully paid:				
At 1 January	1,747,868	1,240,361	1,747,868	1,240,361
Issued during the year:				
Issue of ordinary shares pursuant to right issue	873,929	-	873,929	-
Issue of ordinary shares pursuant to DRP	49,327	-	49,327	-
Issue of ordinary shares pursuant to ESOS	38,115	20,808	38,115	20,808
Issue of ordinary shares pursuant to warrants	384	486,699	384	486,699
At 31 December	2,709,623	1,747,868	2,709,623	1,747,868

22. Share capital and share premium (cont'd.)**Share premium****Group and Company**

	Amount	
	2014	2013
	RM'000	RM'000
At 1 January	631,189	514,098
Issue of ordinary shares pursuant to right issue	558,448	-
Issue of ordinary shares pursuant to DRP	50,807	-
Issue of ordinary shares pursuant to ESOS	38,429	21,672
Issue of ordinary shares pursuant to warrants	-	95,419
At 31 December	1,278,873	631,189

(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 to be in force for a period of 5 years from the date of implementation.

The salient features of the ESOS are as follows:

- (i) Eligible persons are employees of the Group who are on the payroll of the Group other than a subsidiary which is dormant;
- (ii) The total number of shares to be issued under the ESOS shall not exceed, in aggregate 10% of the issued share capital of the Company at any point of time during the tenure of the ESOS;
- (iii) The option price for each share shall be the average of the main market quotation of the shares of the Company in the daily official list issued by Bursa Malaysia Securities Berhad for the five trading days preceding the date of offer, or the par value of the shares of the Company of RM1, whichever is higher;
- (iv) The actual number of new shares which may be offered to an eligible employee shall be at the discretion of the Option Committee and, subject to any adjustments that may be made under Clause 15 of the by-laws, shall not be less than 100 shares but not more than the maximum allowable allocation and shall always be in multiples of 100 shares; and
- (v) An option granted under the ESOS shall be capable of being exercised by the grantee by notice in writing to the Company commencing from the date of the offer but before the expiry of five years from 12 August 2010 in respect of all or any part of the Company's shares comprised in the option, such part being in multiples of 100 shares. Any partial exercise of an option shall not preclude the grantee from exercising the option in respect of the balance of the Company's shares comprised in the option.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

22. Share capital and share premium (cont'd.)

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

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

The number of Company's 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 Company's 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 Company's shares available under the Scheme;

- (vii) The persons to whom the options have been granted have no right to participate by virtue of the options in any share issue of any other company;
- (viii) In respect of the ESOS granted in 11.9.2010, 80% of the options granted are exercisable immediately and the remaining 20% of the options shall become exercisable in the subsequent year 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, 75% of the options granted are exercisable immediately and the remaining 25% of the options shall become exercisable in the subsequent year 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, 2/3 of the options granted are exercisable immediately and the remaining 1/3 of the options shall become exercisable in the subsequent year 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, 1/2 of the options granted are exercisable immediately and the remaining 1/2 of the options shall become exercisable in the subsequent year 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.

22. Share capital and share premium (cont'd.)

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

Movement of ESOS during the financial year

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

	Group			
	2014			2013
	No.'000	WAEP (RM)	No.'000	WAEP (RM)
Outstanding at 1 January	39,812	-	61,279	-
- Adjusted*/granted	30,370	2.08	2,552	1.82
- Exercised	(38,115)	1.73	(20,808)	1.48
- Lapsed	(4,457)	2.00	(3,211)	1.66
Outstanding at 31 December	27,610	1.97	39,812	1.66
Exercisable at 31 December	13,389	1.91	15,827	1.82

- The weighted average fair value of options granted during the financial year was RM0.29 (2013: RM0.32).
- The weighted average share price at the date of exercise of the options exercised during the financial year was RM2.49 (2013: RM2.85).
- The weighted average exercise price for options outstanding at the end of the year was RM1.83 (2013: RM1.66). The weighted average remaining contractual life for these options is 0.60 years (2013: 1.60 years).
- * In 2013, the number of ESOS options was adjusted to reflect the changes in the fraction to the ESOS options in accordance with the issuance of the Rights Issue with an entitlement date on 26 December 2013.

ESOS exercised during the financial year

The exercise of the ESOS during the financial year resulted in the issuance of 38,115,338 ordinary shares at prices stated below.

The details of all ESOS exercised during the year are as follows:

	No. units	Exercise price* (RM)
ESOS granted on 11.09.2010	10,230,029	1.01
ESOS granted on 09.03.2012	2,617,972	1.44
ESOS granted on 15.11.2012	16,579,152	2.01
ESOS granted on 09.03.2014	8,688,185	2.15
	38,115,338	

- * Exercise prices have been adjusted after the Rights Issue exercise.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

22. Share capital and share premium (cont'd.)

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

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.

Fair value of ESOS granted during the financial year

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)	2	3	4	5
Risk free rate (%)	4.11	3.49	3.64	3.91
Expected dividend yield (%)	4.52	4.09	3.85	3.00

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

(b) Warrants

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

During the financial year, 383,664 (2013: 486,699,000) warrants were exercised by the warrant holders and 18,124,918 (2013: 18,508,582) warrants are still outstanding as at 31 December 2014. There were also additional warrants issued during the year which relates to changes in the fraction to the number of warrants due to the issuance of Rights Issue. The entitlement date was on 26 December 2013.

23. Other reserves

Group and Company	Capital Reserve RM'000 Note (a)	Share Option Reserve RM'000 Note (b)	Warrants Reserve RM'000 Note (c)	Capital Redemption Reserve - Redeemable Cumulative Preference Shares RM'000 Note (d)	Total RM'000
At 1 January 2014	17,838	2,713	3,633	12,486	36,670
Share options granted under ESOS recognised in profit or loss (Note 29)	-	12,389	-	-	12,389
Issue of ordinary shares pursuant to ESOS	-	(10,441)	-	-	(10,441)
Issue of ordinary shares pursuant to warrants	-	-	-	-	-
Transfer of share option reserve to accumulated losses upon lapsed of share options	-	(1,808)	-	-	(1,808)
At 31 December 2014	17,838	2,853	3,633	12,486	36,810
At 1 January 2013	17,838	2,799	98,207	12,486	131,330
Share options granted under ESOS recognised in profit or loss (Note 29)	-	7,786	-	-	7,786
Issue of ordinary shares pursuant to ESOS	-	(6,842)	-	-	(6,842)
Issue of ordinary shares pursuant to warrants	-	-	(94,574)	-	(94,574)
Transfer of share option reserve to accumulated losses upon lapsed of share options	-	(1,030)	-	-	(1,030)
At 31 December 2013	17,838	2,713	3,633	12,486	36,670

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

23. Other reserve (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.
- (c) The warrants reserve represents the cumulative fair value of the warrants yet to be exercised.
- (d) The Capital redemption reserve arose out of the redemption of redeemable cumulative preference shares and is not distributable as cash dividends.

24. Revenue

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

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

25. Interest income

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Interest income from:				
- Loans, advances and financing	465,029	430,247	448,341	416,211
- Investment held to maturity	-	100	-	100
- Deposits and placements with banks and other financial institutions	54,358	35,424	54,358	35,424
	519,387	465,771	502,699	451,735

26. Interest expense

	Group and Company	
	2014 RM'000	2013 RM'000
Bank borrowings	13,132	6,383
Deposits from customers	261,766	267,744
Recourse obligation on loans sold	-	93,775
	274,898	367,902

27. Other income

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Rental income	459	117	306	99
Revenue from hotel operations	9,155	9,755	-	-
Loan agency fees	5	16	5	16
Loan processing fees	47,173	48,763	47,173	48,763
Insurance commission	10,895	20,330	10,895	20,330
Loan facility fees	4,625	14,208	4,625	14,208
Legal notice fee	1,820	1,004	1,820	1,004
Sukuk income	124	-	124	-
Sundry income	8,833	27,908	8,591	27,745
Gain from disposal of:				
Property, plant and equipment and land use rights	3	2,935	3	4
Foreclosed properties	4,050	448	4,050	448
Investment properties	166	-	-	-
Inventories	4,479	15,001	803	15,001
	91,787	140,485	78,395	127,618

28. Other operating expenses

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Personnel expenses (Note 29)	141,187	125,498	137,068	121,737
Establishment related expenses	15,857	14,530	15,431	13,841
Promotion and marketing related expenses	13,603	20,179	13,456	20,004
General administrative expenses	72,869	64,296	62,141	53,664
Angkasa charges	29,042	25,271	29,042	25,271
Allowance/(write back of allowance) for impairment of:				
Investments in subsidiaries	-	-	(5,479)	(2,088)
Loans to subsidiaries (Note 11(b))	-	-	7,976	3,802
Amount due from subsidiaries (Note 7)	-	-	1,618	1,275
Advances in respect of certain projects (Note 7)	30,257	27,253	-	-
PLCHP (Note 7)	-	18,267	-	18,267
Loan commitment fees (Note 7)	-	22	-	22
Commitment fees (Note 7)	2,134	-	2,134	-
Trade receivables (Note 6)	-	(20)	-	-
	304,949	295,296	263,387	255,795

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

28. Other operating expenses (cont'd.)

Included in other operating expenses are the following:

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Auditors' remuneration:				
- Audit				
- Parent auditors	546	430	457	355
- Other auditors	3	3	3	3
- Regulated related services				
- Parent auditors	5	5	5	5
- Other services				
- Parent auditors	3,583	3,121	3,583	3,121
- Other auditors	224	36	224	36
Amortisation:				
- land use rights (Note 14)	160	165	-	-
- intangible assets (Note 15)	12,311	10,989	12,271	10,948
Depreciation:				
- investment properties (Note 12)	12	21	-	-
- property, plant and equipment (Note 13)	14,497	13,159	11,203	9,255
Directors' remuneration (Note 30)	1,494	1,074	1,494	1,074
Rental of buildings	-	-	8,318	7,253

29. Personnel expenses

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Wages and salaries	99,554	92,289	96,136	89,204
Social security costs	808	731	763	684
Pension costs - Employees Provident Fund	15,098	15,243	14,780	14,946
Share options granted under ESOS	12,389	7,786	12,389	7,786
Other staff related expenses	13,338	9,449	13,000	9,117
	141,187	125,498	137,068	121,737

30. Directors' remuneration

	Group and Company	
	2014	2013
	RM'000	RM'000
Directors of the Company Non-Executive:		
Fees	760	587
Other emoluments	734	487
Total	1,494	1,074

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

	Number of Directors	
	2014	2013
Non-executive directors:		
RM1,000 - RM50,000	-	-
RM50,001 - RM100,000	-	1
RM100,001 - RM150,000	-	4
RM150,001 - RM200,000	4	1
RM200,001 - RM250,000	2	-
RM250,001 - RM300,000	-	1
RM300,001 - RM350,000	1	-

Details of the directors' remuneration of each director during the financial year ended 31 December 2014 are as follows:

Directors	Director Fees	Allowance	Total
	RM'000	RM'000	RM'000
1. Tan Sri Abdul Halim bin Ali	140	184	324
2. Datuk Syed Zaid bin Syed Jaffar Albar	100	82	182
3. Datuk Shahril Ridza bin Ridzuan	100*	82	182
4. Encik Aw Hong Boo	120	104	224
5. Dato' Jasmy bin Ismail	100	88	188
6. Encik Lim Tian Huat	100	108	208
7. Cik Ravinder Kaur a/p Mahan Singh	100	86	186
	760	734	1,494

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

31. Allowance for impairment losses on loans, advances and financing

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Allowance for/(write back of) impairment on loans, advances and financing:				
- Collective impairment (Note 9(vi))	119,294	305,239	119,294	305,239
- Individual impairment (Note 9(vi))	7,824	(32,173)	7,824	(32,173)
- Written off	-	2,507	-	2,507
- Written back	(943)	-	(943)	-
	126,175	275,573	126,175	275,573

32. Taxation

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Malaysian income tax:				
Current income tax	275,549	330,000	273,049	331,670
(Over)/under provision in prior years	2,852	568	2,852	(4,901)
	278,401	330,568	275,901	326,769
Deferred tax (Note 21):				
(Over)/under provision in prior years	(333,081)	-	(333,081)	-
Relating to origination and reversal of temporary differences	(33,035)	541	(32,919)	5,528
	(366,116)	541	(366,000)	5,528
Total income tax expense	(87,715)	331,109	(90,099)	332,297
Tax refund	(103)	(5)	-	-
Tax (credit)/expense for the year	(87,818)	331,104	(90,099)	332,297

32. Taxation (cont'd.)

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2013: 25%) of the estimated assessable profit for the year.

The Company had, in October 2010, submitted an application to the Ministry of Finance ("MoF") seeking approval to apply the Guidelines on Income Tax Treatment from Adopting FRS 139 - *Financial Instruments: Recognition and Measurement* ("Guidelines"). The Guidelines were issued by the MoF on 1 April 2008 and are only applicable to financial institutions regulated by Bank Negara Malaysia ("BNM") that are licensed pursuant to the Banking and Financial Institutions Act 1989, or the Islamic Banking Act 1983 or prescribed pursuant to the Development Financial Institutions Act 2002.

Pending the said approval as at the date of this report, the provision for tax payable for the financial years ended 31 December 2010 and 2011 was made without adopting the Guidelines. Should the approval be obtained, provision for tax payable and deferred taxation for the financial years ended 31 December 2011 and 2012 would be revised.

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	2014 RM'000	2013 RM'000
Profit before taxation and zakat	932,556	932,349
Taxation at Malaysian statutory tax rate of 25% (2013: 25%)	233,139	233,087
Effect of income not subject to tax	(12,923)	(13,839)
Effect of expenses not deductible for tax purposes	17,270	18,339
Effect of utilisation of previously unrecognised tax losses and unabsorbed capital allowances	2,603	333
Deferred tax assets not recognised	2,322	92,616
(Over)/underprovision of income tax in prior years	2,852	568
Overprovision of deferred tax in prior years	(333,081)	-
Tax (credit)/expense for the year	(87,818)	331,104
Company		
Profit before taxation and zakat	913,295	941,605
Taxation at Malaysian statutory tax rate of 25% (2013: 25%)	228,324	235,401
Effect of income not subject to tax	-	(3,862)
Effect of expenses not deductible for tax purposes	11,806	9,448
Deferred tax assets not recognised	-	85,790
Under/(over) provision of income tax in prior years	2,852	(4,901)
(Over)/under provision of deferred tax in prior years	(333,081)	10,421
Tax (credit)/expense for the year	(90,099)	332,297

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

33. Earnings per share

(a) Basic

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

	2014	2013
Net profit for the year (RM'000)	1,015,029	597,568
Weighted average number of ordinary shares in issue ('000)	2,592,379	1,611,998
Basic earnings per share (sen)	39.15	37.07

(b) Diluted

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

	2014	2013
Net profit for the year (RM'000)	1,015,029	597,568
Weighted average number of ordinary shares in issue ('000)	2,592,379	1,611,998
Adjusted for assumed conversion of ESOS ('000)	2,637	4,291
Adjusted for assumed conversion of warrants ('000)	10,541	9,485
Adjusted weighted average number of ordinary shares in issue ('000)	2,605,557	1,625,774
Diluted earning per share (sen)	38.96	36.76

34. Dividends

	Group and Company	
	2014	2013
	RM'000	RM'000
Recognised during the financial year:		
Dividends on ordinary shares:		
In respect of the financial year ended 31 December 2013/2012:		
- Single-tier final taxable dividend of 5% (2012: 9% less 25%, 6.75 sen net of tax) per share	131,240	116,955
- Single-tier special taxable dividend of 18% less 25%, 13.50 sen net of tax per share	-	233,910
- Single-tier interim taxable dividend of 5% per share	-	87,262
	131,240	438,127
Proposed but not recognised as a liability as at 31 December:		
Dividend on ordinary shares, subject to shareholders' approval at the AGM:		
In respect of financial year ended 31 December 2014/2013:		
- Single-tier final taxable dividend of 10% per share	271,128	-
- Single-tier special taxable dividend of 2% per share	54,226	-
- Single-tier final taxable dividend of 5% per share	-	131,090
	325,354	131,090

At the forthcoming Annual General Meeting, a single tier final dividend of 10% and a single tier special dividend of 2% in respect of the financial year ended 31 December 2014 on 2,711,277,000 ordinary shares of RM1.00 each as at 6 February 2015, amounting to a total dividend of RM325,354,000 will be proposed for shareholders' approval.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity in the financial year ending 31 December 2015.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

34. Dividends (cont'd.)

MBSB Dividend Reinvestment Plan (cont'd.)

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 of the Company ("Board") has now determined that the option to reinvest via the DRP shall apply to the entire portion of the proposed single-tier final dividend of 10% and single-tier special dividend of 2% for the financial year ended 31 December 2014. The approval for the proposed single-tier final dividend of 10% and single-tier special dividend of 2% will be sought at the coming Annual General Meeting.

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

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

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

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

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

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

35. Significant related party transactions/balances

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

EPF, the ultimate holding body, is a shareholder with control over the Group, with direct shareholdings of 64.18% (2013: 64.52%) as at 31 December 2014. 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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Expenses				
Interest on loans	11,363	16,853	11,363	16,853
Rental expense	275	286	275	286
Balances				
Other borrowings (Note 17)	150,544	250,869	150,544	250,869

(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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Expenses				
Sukuk facility agent fees	4,755	1,339	4,714	1,161
Balances				
Deposits and placements with financial institutions	2,193	750,162	2,193	750,162
Deposits from customers	-	208	-	208
Bank borrowings	475,396	500,111	475,396	500,111
Recourse obligation on loans/financing sold	910,727	946,034	910,727	946,034

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

35. Significant related party transactions/balances (cont'd.)

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

(iii) Collectively, but not individually, significant balances

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

For the financial year ended 31 December 2014, the aggregate amount of the Group's and Company's significant balances with other government-related entities other than the RHB Banking Group of companies are as disclosed below:

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Balances				
Deposit from customer	774,428	83	774,428	83

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

	Company	
	2014 RM'000	2013 RM'000
Income/(expenses)		
Interest charged on loans/advances	54,315	50,190
Rental paid	(1,004)	(1,114)
Balances		
Loans to subsidiaries	491,568	445,092
Amount due from subsidiaries	144,864	52,376
Amount due to subsidiaries	24,676	17,800

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

35. Significant related party transactions/balances (cont'd.)

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

	Group and Company	
	2014	2013
	RM'000	RM'000
Short-term employee benefits	5,376	4,760
Share-based payment	101	85
Pension costs: EPF	623	579
	6,100	5,424
Included in the total key management personnel are:		
Directors' remuneration comprising fees and allowances (Note 30)	1,494	1,074
Chief Executive Officer's remuneration comprising salary, bonus, allowances and other emoluments	2,901	2,700

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

	Group and Company	
	2014	2013
	RM'000	RM'000
Expense		
Interest cost incurred on savings and deposits	(117)	(144)
Balances		
Amount due to in respect of savings and deposits	2,602	3,673

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

35. Significant related party transactions/balances (cont'd.)

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

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

	Group and Company	
	2014	2013
	'000	'000
At 1 January	721	967
Granted	403	-
Adjustments	136	-
Exercised	-	(246)
Lapsed	(423)	-
At 31 December*	837	721

* Adjustment relates to changes in number of ESOS options due to the Rights Issue where the effective date was on 26 December 2013 which was also the entitlement date for the Rights Issue.

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

36. Commitments and contingencies

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
(i) Operational Commitments				
Loan commitments not yet recognised in the financial statements:				
End finance	314,516	309,763	314,516	309,763
Islamic properties	63,221	66,611	63,221	66,611
Islamic personal	2,493	-	2,493	-
Bridging, structured and term loans and financing	7,251,844	4,096,150	7,251,844	4,096,150
Financial guarantees	85,110	120,046	85,110	120,046
	7,717,184	4,592,570	7,717,184	4,592,570
Approved and contracted for property development	421,528	421,528	1,667	1,667
Total	8,138,712	5,014,098	7,718,851	4,594,237
(ii) Capital Commitments				
Property, plant and equipment:				
Approved and contracted for	196,822	239,237	-	-
Approved but not contracted for	-	63,556	11	63,793
	196,822	302,793	11	63,793

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

37. Contingent liabilities (Unsecured)

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

On conclusion of the full trial, the claim against the Company was dismissed with costs. The contractor's appeal to the Court of Appeal was allowed. The Company has filed an application for leave to appeal to the Federal Court and a tentative hearing date is fixed for 16 April 2015.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

37. Contingent liabilities (Unsecured) (cont'd.)

- (ii) A third party and its holding company (collectively “the Plaintiffs”) have instituted a civil suit against the Company and its subsidiary for an alleged breach of facility agreement. On conclusion of the full trial, the Court dismissed the Plaintiffs’ claim with costs and allowed the Company’s counterclaim. The Plaintiffs have filed an appeal to the Court of Appeal against the decision. The date for the Appeal has yet to be fixed.

Separately, the Plaintiffs had on 25 April 2013 served an originating summons on the Company seeking for an order from the Johor Bahru High Court that the charge created in favour of the Company be set aside and is of no effect and for a removal and cancellation of the same. On 13 December 2013 after the hearing, the Plaintiffs’ application was allowed. The Court of Appeal dismissed the Company’s appeal. The Company’s application to the Federal Court for leave to appeal was allowed on 29 January 2015. The Federal Court has yet to fix a date for the hearing of the appeal.

The directors after obtaining advice from the Company’s solicitors, are of the opinion that the Company has reasonably good cases in respect of all the claims against the Company and as such, no provision has been made in the financial statements.

38. Financial risk management

(a) Financial risk management objectives and policies

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

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

- (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 its 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.

38. Financial risk management (cont'd.)

(c) Risk organisation

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

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

- (i) Executive Committee ("EXCO"): The EXCO assists the Board in evaluating and approving loan applications within their approval authority limits and deliberates on proposals for recovery of impaired loans, approves proposals within its authority and recommends to the Board on proposals beyond its authority. Additionally, the EXCO also monitors the progress of recovery of impaired loans and formulates recovery strategies. The EXCO also assists the Board in evaluating on all matters relating to impaired loans as well as the capital expenditure and operating expenditure of the Group and the Company.
- (ii) Asset and Liability Committee ("ALCO"): The ALCO is responsible for the Group's and the Company's liquidity management by focusing on the maturity gap, liquidity position, loans portfolio concentration, deposits composition and depositors' concentration. The ALCO also manages the interest rate exposures and interest margin of the Group and the Company by reviewing the lending rates, cost of funds, interest margin and the repricing gaps.
- (iii) Credit and Rehabilitation Assessment Committee ("CARAC"): The CARAC deliberates and recommends to the relevant Board or Board Committee for Corporate Loan and Mortgage applications and decides whether to proceed with the preparation of the Board paper based on completed credit assessment reports. The CARAC also deliberates and recommends any appeal on variations to the terms and conditions as earlier approved by the Board or Board Committees and also deliberates and approves the submission of the relevant corporate rehabilitation papers for the Board or Board Committees.
- (iv) Management Committee ("MANCO"): The MANCO deliberates the implementation of the enterprise-wide risk management framework which addresses credit, market and operational and strategic risks and also resolves operational issues within the policies established by the Board and recommends policy changes to the Board.

(d) Risk reporting and monitoring

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

(e) Credit risk mitigation

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

38. Financial risk management (cont'd.)**Credit risk (cont'd.)**

- (i) Maximum exposure to credit risk

The maximum exposure to credit risk without taking into account the fair value of collateral for each class of financial assets is the carrying value of these assets as shown below:

	Group		Company	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Financial Assets:				
Loans, Advances and Financing:				
Without taking collateral into account:				
End finance and Islamic property	5,302,602	5,376,965	5,302,602	5,376,965
Personal financing	23,416,109	23,405,091	23,416,109	23,405,091
Bridging, structured and term loans and financing	3,677,662	2,924,770	3,961,727	3,208,915
Auto finance	282,201	208,714	282,202	208,714
	32,678,574	31,915,540	32,962,640	32,199,685
Net of Collateral:				
End finance and Islamic property	4,455,798	4,576,654	4,455,798	4,576,654
Personal Financing	22,949,210	23,030,271	22,949,210	23,030,271
Bridging, structured and term loans and financing	3,373,226	2,501,659	3,423,033	2,551,545
Auto finance	253,914	187,638	253,913	187,638
	31,032,148	30,296,222	31,081,954	30,346,108
Loans to subsidiaries	-	-	139,938	101,355
Deposits with Financial Institutions and Bank Balance:				
Cash and short-term funds	5,683,939	4,576,711	5,657,580	4,553,819
Deposits and placements with financial institutions	83,418	6,953	8,117	6,953
	5,767,357	4,583,664	5,665,697	4,560,772
Other Financial Assets:				
Trade receivables	365	524	-	-
Other receivables*	96,327	67,351	123,167	21,746
Sukuk Commodity Murabahah	-	-	1,373,565	578,645
	96,692	67,875	1,496,732	600,391
Total financial assets	38,542,623	36,567,079	40,265,007	37,462,203

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality

The credit quality of financial assets are analysed as follows:

Group	2014							
	Neither Past Due Nor Impaired RM'000	← Past due but not impaired → Past Due Up To <1 Month RM'000	Past Due 1 To < 3 Months RM'000	Past Due 3 To < 6 Months RM'000	Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net RM'000
Financial Assets:								
Loans, Advances and Financing:								
End finance and Islamic property	2,370,371	1,066,255	698,729	-	1,167,247	5,302,602	(846,804)	4,455,798
Personal financing	22,050,752	374,099	119,497	-	871,761	23,416,109	(466,899)	22,949,210
Auto finance	189,520	55,934	20,273	-	16,474	282,201	(28,287)	253,914
Bridging, structured and term loans and financing	3,271,087	-	253,721	62,543	90,311	3,677,662	(304,436)	3,373,226
	27,881,730	1,496,288	1,092,220	62,543	2,145,793	32,678,574	(1,646,426)	31,032,148
Deposits with Financial Institutions and Bank Balance:								
Cash and short-term funds	5,683,939	-	-	-	-	5,683,939	-	5,683,939
Deposits and placements with financial institutions	83,418	-	-	-	-	83,418	-	83,418
	5,767,357	-	-	-	-	5,767,357	-	5,767,357
Other Financial Assets:								
Trade receivables	-	265	75	25	24,810	25,175	(24,810)	365
Other receivables	96,149	178	-	-	285,399	381,726	(285,399)	96,327
	96,149	443	75	25	310,209	406,901	(310,209)	96,692

38. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Group	2013							
	Neither Past Due Nor Impaired	← Past due but not impaired → Past Due Up To <1 Month	Past Due 1 To < 3 Months	Past Due 3 To < 6 Months	Impaired	Total Gross	Impairment Allowances	Total Net
Financial Assets:								
Loans, Advances and Financing:								
End finance and Islamic property	2,266,223	957,381	1,007,013	281,818	864,530	5,376,965	(800,311)	4,576,654
Personal financing	22,513,697	199,844	148,085	85,103	458,362	23,405,091	(374,820)	23,030,271
Auto finance	129,820	46,471	23,657	2,962	5,804	208,714	(21,076)	187,638
Bridging, structured and term loans and financing	2,209,815	-	282,425	112,843	319,687	2,924,770	(423,111)	2,501,659
	27,119,555	1,203,696	1,461,180	482,726	1,648,383	31,915,540	(1,619,318)	30,296,222
Deposits with Financial Institutions and Bank Balance:								
Cash and short-term funds	4,576,711	-	-	-	-	4,576,711	-	4,576,711
Deposits and placements with financial institutions	6,953	-	-	-	-	6,953	-	6,953
	4,583,664	-	-	-	-	4,583,664	-	4,583,664
Other Financial Assets:								
Trade receivables	-	298	148	78	24,810	25,334	(24,810)	524
Other receivables	67,172	179	-	-	253,008	320,359	(253,008)	67,351
	67,172	477	148	78	277,818	345,693	(277,818)	67,875

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Company	2014							
	Neither Past Due Nor Impaired	← Past due but not impaired →			Impaired	Total Gross	Impairment Allowances	Total Net
Past Due Up To <1 Month	Past Due 1 To < 3 Months	Past Due 3 To < 6 Months						
Financial Assets:								
Loans, Advances and Financing:								
End finance and Islamic property	2,370,371	1,066,255	698,729	-	1,167,247	5,302,602	(846,804)	4,455,798
Personal financing	22,050,752	374,099	119,497	-	871,761	23,416,109	(466,899)	22,949,210
Auto finance	189,520	55,934	20,274	-	16,474	282,202	(28,289)	253,913
Bridging, structured and term loans and financing	3,271,087	-	253,720	62,542	374,378	3,961,727	(538,694)	3,423,033
	27,881,730	1,496,288	1,092,220	62,542	2,429,860	32,962,640	(1,880,686)	31,081,954
Loans to subsidiaries	46,011	-	-	-	196,831	242,842	(102,904)	139,938
Deposits with Financial Institutions and Bank Balance:								
Cash and short-term funds	5,657,580	-	-	-	-	5,657,580	-	5,657,580
Deposits and placements with financial institutions	8,117	-	-	-	-	8,117	-	8,117
	5,665,697	-	-	-	-	5,665,697	-	5,665,697
Other Financial Assets:								
Other receivables	123,167	-	-	-	76,331	199,498	(76,331)	123,167
Sukuk Commodity Murabahah	1,373,565	-	-	-	-	1,373,565	-	1,373,565
	1,496,732	-	-	-	76,331	1,573,063	(76,331)	1,496,732

38. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Company	2013							
	Neither Past Due Nor Impaired RM'000	← Past due but not impaired → Past Due Up To <1 Month RM'000	Past Due 1 To < 3 Months RM'000	Past Due 3 To < 6 Months RM'000	Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net RM'000
Financial Assets:								
Loans, Advances and Financing:								
End finance and Islamic property	2,266,223	957,381	1,007,013	281,818	864,530	5,376,965	(800,311)	4,576,654
Personal financing	22,513,697	199,844	148,085	85,103	458,362	23,405,091	(374,820)	23,030,271
Auto finance	129,820	46,471	23,657	2,962	5,804	208,714	(21,076)	187,638
Bridging, structured and term loans and financing	2,209,815	-	282,422	112,842	603,836	3,208,915	(657,370)	2,551,545
	27,119,555	1,203,696	1,461,177	482,725	1,932,532	32,199,685	(1,853,577)	30,346,108
Loans to subsidiaries	6,680	-	-	-	189,603	196,283	(94,928)	101,355
Deposits with Financial Institutions and Bank Balance:								
Cash and short-term funds	4,553,819	-	-	-	-	4,553,819	-	4,553,819
Deposits and placements with financial institutions	6,953	-	-	-	-	6,953	-	6,953
	4,560,772	-	-	-	-	4,560,772	-	4,560,772
Other Financial Assets:								
Other receivables	94,325	-	-	-	-	94,325	(72,579)	21,746
Investments held-to-maturity	578,645	-	-	-	-	578,645	-	578,645
	672,970	-	-	-	-	672,970	(72,579)	600,391

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Neither Past Due Nor Impaired

(a) High Grade

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

(b) Standard Grade

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

(c) New Loans During The Year

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

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

Group	2014			
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	Total RM'000
Financial Assets:				
Loans, Advances and Financing:				
End finance and Islamic property	-	1,927,351	443,020	2,370,371
Personal financing	-	21,434,964	615,788	22,050,752
Auto finance	-	103,082	86,438	189,520
Bridging, structured and term loans and financing	-	1,719,112	1,551,975	3,271,087
	-	25,184,509	2,697,221	27,881,730

38. Financial risk management (cont'd.)**Credit risk (cont'd.)**

(ii) Credit quality (cont'd.)

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

Group	2014			
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	Total RM'000
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	393,345	-	-	393,345
Money at call	2,338,246	-	-	2,338,246
Deposits and placements with financial institutions:				
- with maturity of less than one month	2,952,348	-	-	2,952,348
- with maturity of more than one month	83,418	-	-	83,418
	5,767,357	-	-	5,767,357
Other Financial Asset:				
Other receivables	-	96,149	-	96,149
	-	96,149	-	96,149
Group	2013			
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	Total RM'000
Financial Assets:				
Loans, Advances and Financing:				
End finance and Islamic property	-	1,559,347	706,876	2,266,223
Personal financing	-	14,382,130	8,131,567	22,513,697
Auto finance	-	62,710	67,110	129,820
Bridging, structured and term loans and financing	-	1,093,475	1,116,340	2,209,815
	-	17,097,662	10,021,893	27,119,555

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

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

Group	2013			
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	Total RM'000
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	243,958	-	-	243,958
Money at call	1,855,267	-	-	1,855,267
Deposits and placements with financial institutions:				
- with maturity of less than one month	2,477,486	-	-	2,477,486
- with maturity of more than one month	6,953	-	-	6,953
	4,583,664	-	-	4,583,664
Other Financial Assets:				
Other receivables	-	67,172	-	67,172
	-	67,172	-	67,172

38. Financial risk management (cont'd.)**Credit risk (cont'd.)**

(ii) Credit quality (cont'd.)

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

Company	2014			
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	Total RM'000
Financial Assets:				
Loans, Advances and Financing:				
End finance and Islamic property	-	1,927,351	443,020	2,370,371
Personal financing	-	21,434,964	615,788	22,050,752
Auto finance	-	103,082	86,438	189,520
Bridging, structured and term loans and financing	-	1,719,112	1,551,975	3,271,087
	-	25,184,509	2,697,221	27,881,730
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	370,449	-	-	370,449
Money at call	2,338,246	-	-	2,338,246
Deposits and placements with financial institutions:				
- with maturity of less than one month	2,948,885	-	-	2,948,885
- with maturity of more than one month	8,117	-	-	8,117
	5,665,697	-	-	5,665,697

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

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

Company	2014			
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	Total RM'000
Loans to subsidiaries	-	46,011	-	46,011
Other Financial Assets:				
Other receivables	-	123,167	-	123,167
Sukuk Commodity Murabahah	-	1,373,565	-	1,373,565
	-	1,496,732	-	1,496,732
Company	2013			
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	Total RM'000
Financial Assets:				
Loans, Advances and Financing:				
End finance and Islamic property	-	1,559,347	706,876	2,266,223
Personal financing	-	14,382,130	8,131,567	22,513,697
Auto finance	-	62,710	67,110	129,820
Bridging, structured and term loans and financing	-	1,093,475	1,116,340	2,209,815
	-	17,097,662	10,021,893	27,119,555

38. Financial risk management (cont'd.)**Credit risk (cont'd.)**

(ii) Credit quality (cont'd.)

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

Company	2013			
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	Total RM'000
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	224,424	-	-	224,424
Money at call	1,855,267	-	-	1,855,267
Deposits and placements with financial institutions:				
- with maturity of less than one month	2,474,128	-	-	2,474,128
- with maturity of more than one month	6,953	-	-	6,953
	4,560,772	-	-	4,560,772
Loans to subsidiaries	-	6,680	-	6,680
Other Financial Assets:				
Other receivables	-	94,325	-	94,325
Sukuk Commodity Murabahah	-	578,645	-	578,645
	-	672,970	-	672,970

Past Due But Not Impaired

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

Impaired

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

Credit risk (cont'd.)

(iii) Industry analysis

	Property Develop- ment RM'000	Financial Services RM'000	Telecom- munication RM'000	Food RM'000	Consumer RM'000	Oil and gas RM'000	Services ¹ RM'000	Others RM'000	Total RM'000
Group									
31 December 2014									
Financial Assets:									
Cash and short-term funds	12,402	5,657,580	-	-	-	-	1,548	12,409	5,683,939
Deposits and placements with financial institutions	-	8,117	-	-	-	-	-	75,301	83,418
Trade receivables	-	-	-	-	-	-	365	-	365
Other receivables	3,846	-	-	-	-	-	717	91,764	96,327
Loans, advances and financing:									
- End finance and Islamic property	-	-	-	-	4,455,798	-	-	-	4,455,798
- Personal financing	-	-	-	-	22,949,210	-	-	-	22,949,210
- Auto finance	-	-	-	-	253,913	-	-	-	253,914
- Bridging, structured and term loans and financing	2,750,337	-	-	-	9,998	359,359	252,748	784	3,373,226
	2,766,585	5,665,697	-	-	27,668,920	359,359	255,378	180,258	36,896,197

	Property Develop- ment RM'000	Financial Services RM'000	Telecom- munication RM'000	Food RM'000	Consumer RM'000	Oil and gas RM'000	Services ¹ RM'000	Others RM'000	Total RM'000
Company									
31 December 2014									
Financial Assets:									
Cash and short-term funds	-	5,657,580	-	-	-	-	-	-	5,657,580
Deposits and placements with financial institutions	-	8,117	-	-	-	-	-	-	8,117
Other receivables	-	-	-	-	-	-	-	123,167	123,167
Sukuk Commodity Murabahah	-	-	-	-	-	-	-	1,373,565	1,373,565
Loans, advances and financing:									
- End finance and Islamic property	-	-	-	-	4,455,798	-	-	-	4,455,798
- Personal financing	-	-	-	-	22,949,210	-	-	-	22,949,210
- Auto finance	-	-	-	-	253,913	-	-	-	253,913
- Bridging, structured and term loans and financing	2,800,144	-	-	-	9,998	359,359	252,748	784	3,423,033
Loans to subsidiaries	-	57,325	-	-	-	-	82,613	-	139,938
	2,800,144	5,723,022	-	-	27,668,919	359,359	335,361	1,497,516	38,384,321

¹ Services includes hotel operation.

38. Financial risk management (cont'd.)

Credit risk (cont'd.)

(iii) Industry analysis (cont'd.)

	Property Develop- ment RM'000	Financial Services RM'000	Telecom- munication RM'000	Food RM'000	Consumer RM'000	Oil and gas RM'000	Services ¹ RM'000	Others RM'000	Total RM'000
Group									
31 December 2013									
Financial Assets:									
Cash and short-term funds	11,740	4,553,819	-	-	-	-	3,621	7,531	4,576,711
Deposits and placements with financial institutions	-	6,953	-	-	-	-	-	-	6,953
Trade receivables	-	-	-	-	-	-	524	-	524
Other receivables	8,629	-	-	-	-	-	472	58,250	67,351
Loans, advances and financing:									
- End finance and Islamic property	-	-	-	-	4,576,654	-	-	-	4,576,654
- Personal financing	-	-	-	-	23,030,271	-	-	-	23,030,271
- Auto finance	-	-	-	-	187,638	-	-	-	187,638
- Bridging, structured and term loans and financing	1,519,840	408	294	-	5,881	109,013	403,452	462,771	2,501,659
	1,540,209	4,561,180	294	-	27,800,444	109,013	408,069	528,552	34,947,761

	Property Develop- ment RM'000	Financial Services RM'000	Telecom- munication RM'000	Food RM'000	Consumer RM'000	Oil and gas RM'000	Services ¹ RM'000	Others RM'000	Total RM'000
Company									
31 December 2014									
Financial Assets:									
Cash and short-term funds	-	4,553,819	-	-	-	-	-	-	4,553,819
Deposits and placements with financial institutions	-	6,953	-	-	-	-	-	-	6,953
Other receivables	-	-	-	-	-	-	-	21,746	21,746
Sukuk Commodity Murabahah	-	-	-	-	-	-	-	578,645	578,645
Loans, advances and financing:									
- End finance and Islamic property	-	-	-	-	4,576,654	-	-	-	4,576,654
- Personal financing	-	-	-	-	23,030,271	-	-	-	23,030,271
- Auto finance	-	-	-	-	187,638	-	-	-	187,638
- Bridging, structured and term loans and financing	1,569,726	408	294	-	5,881	109,013	403,452	462,771	2,551,545
Loans to subsidiaries	-	19,365	-	-	-	-	81,990	-	101,355
	1,569,726	4,580,545	294	-	27,800,444	109,013	485,442	1,063,162	35,608,626

¹ Services includes hotel operation.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

Credit risk (cont'd.)

(iv) Collateral

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

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

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

- For conventional mortgage and property Islamic - charge over properties;
- For auto loan and financing - ownership claims over the vehicles financed;
- For project loans and financing - charges over the project being financed; and
- For others loan, advances and financing - charges over business assets such as premises, inventories, marketable securities, real estate and trade receivables or deposits.

Market risk

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

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

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

38. Financial risk management (cont'd.)**Market risk (cont'd.)**Sensitivity analysis for interest rate risk

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

	Tax rate	Group		Company	
		+100 basis points RM'000	-100 basis points RM'000	+100 basis points RM'000	-100 basis points RM'000
2014					
Impact to profit before tax		(219,446)	219,446	(219,701)	219,701
Impact to profit after tax and equity	25%	(164,585)	164,585	(164,776)	164,776
2013					
Impact to profit before tax		(182,150)	182,150	(181,684)	181,684
Impact to profit after tax and equity	25%	(136,612)	136,612	(136,263)	136,263

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

Market risk (cont'd.)

Interest rate risk

The table below summarises the Group's and the Company's exposure to interest rate risk. The table indicates effective average interest 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 rates change.

Group 2014	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Total RM'000	Average interest rate % per annum
Assets								
Cash and short-term funds	-	-	-	-	-	5,683,939	5,683,939	
Deposits and placements with financial institutions	-	-	-	-	-	83,418	83,418	3.97
Trade receivables	-	-	-	-	-	365	365	
Other receivables	-	-	-	-	-	213,564	213,564	
Loans, advances and financing:								
- non-impaired	6,334,285	-	-	-	-	23,440,269	29,774,554	7.62
- impaired	-	-	-	-	-	1,257,594	1,257,594	
Other assets	-	-	-	-	-	652,469	652,469	
Total assets	6,334,285	-	-	-	-	31,331,618	37,665,903	
Liabilities								
Deposits from customers	-	-	-	-	-	27,530,858	27,530,858	2.60
Bank borrowings	1,415,844	-	-	-	-	-	1,415,844	4.33
Other borrowings	-	-	-	-	-	150,544	150,544	5.5
Trade payables	-	-	-	-	-	184	184	
Other payables	-	-	-	-	-	313,753	313,753	
Recourse obligation on loans/financing sold	-	-	-	-	-	2,373,039	2,373,039	4.99
Sukuk - MBSB SC Murabahah	-	-	-	-	-	1,150,124	1,150,124	4.70
Other liabilities	-	-	-	-	-	49,144	49,144	
Total liabilities	1,415,844	-	-	-	-	31,567,646	32,983,490	
Shareholders' equity	-	-	-	-	-	4,682,413	4,682,413	
Total liabilities and shareholders' equity	1,415,844	-	-	-	-	36,250,059	37,665,903	
On-balance sheet interest sensitivity gap	4,918,441	-	-	-	-	(4,918,441)	-	
Total interest sensitivity gap	4,918,441	-	-	-	-	(4,918,441)	-	

38. Financial risk management (cont'd.)

Market risk (cont'd.)

Interest rate risk (cont'd.)

Group 2013	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Total RM'000	Average interest rate % per annum
Assets								
Cash and short-term funds	-	-	-	-	-	4,576,711	4,576,711	
Deposits and placements with financial institutions	-	-	-	-	-	6,953	6,953	3.33
Trade receivables	-	-	-	-	-	524	524	
Other receivables	-	-	-	-	-	187,949	187,949	
Loans, advances and financing:								
- non-impaired	14,951,632	-	-	-	-	14,323,721	29,275,353	7.93
- impaired	-	-	-	-	-	1,020,869	1,020,869	
Other assets	-	-	-	-	-	180,675	180,675	
Total assets	14,951,632	-	-	-	-	20,297,402	35,249,034	
Liabilities								
Deposits from customers	-	-	-	-	-	28,192,669	28,192,669	3.59
Bank borrowings	1,440,319	-	-	-	-	-	1,440,319	4.05
Other borrowings	-	-	-	-	-	250,869	250,869	5.50
Trade payables	-	-	-	-	-	224	224	
Other payables	-	-	-	-	-	323,982	323,982	
Recourse obligation on loans/financing sold	-	-	-	-	-	2,267,224	2,267,224	5.20
Sukuk - MBSB SC Murabahah	-	-	-	-	-	492,696	492,696	4.57
Other liabilities	-	-	-	-	-	94,841	94,841	
Total liabilities	1,440,319	-	-	-	-	31,622,505	33,062,824	
Shareholders' equity	-	-	-	-	-	2,186,210	2,186,210	
Total liabilities and shareholders' equity	1,440,319	-	-	-	-	33,808,715	35,249,034	
On-balance sheet interest sensitivity gap	13,511,313	-	-	-	-	(13,511,313)	-	
Total interest sensitivity gap	13,511,313	-	-	-	-	(13,511,313)	-	

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

Market risk (cont'd.)

Interest rate risk (cont'd.)

Company 2014	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Total RM'000	Average interest rate % per annum
Assets								
Cash and short-term funds	-	-	-	-	-	5,657,580	5,657,580	
Deposits and placements with financial institutions	-	-	-	-	-	8,117	8,117	3.48
Other receivables (excluding amount due from subsidiaries)	-	-	-	-	-	130,863	130,863	
Amount due from subsidiaries	-	-	-	-	-	108,683	108,683	
Loans, advances and financing:								
- non-impaired	6,334,285	-	-	-	-	23,440,269	29,774,554	7.62
- impaired	-	-	-	-	-	1,307,400	1,307,400	
Sukuk Commodity Murabahah	-	-	-	-	-	1,373,565	1,373,565	4.72
Loans to subsidiaries	-	-	-	-	-	139,938	139,938	
Other assets	-	-	-	-	-	475,606	475,606	
Total assets	6,334,285	-	-	-	-	32,642,021	38,976,306	
Liabilities								
Deposits from customers	-	-	-	-	-	27,530,858	27,530,858	2.60
Bank borrowings	1,415,844	-	-	-	-	-	1,415,844	4.33
Other borrowings	-	-	-	-	-	150,544	150,544	5.50
Recourse obligation on loans/financing sold	-	-	-	-	-	2,373,039	2,373,039	4.99
Sukuk - MBSB SC Murabahah	-	-	-	-	-	1,150,124	1,150,124	4.70
Other liabilities	-	-	-	-	-	1,667,964	1,667,964	
Total liabilities	1,415,844	-	-	-	-	32,872,529	34,288,373	
Shareholders' equity	-	-	-	-	-	4,687,933	4,687,933	
Total liabilities and shareholders' equity	1,415,844	-	-	-	-	37,560,462	38,976,306	
On-balance sheet interest sensitivity gap	4,918,441	-	-	-	-	(4,918,441)	-	
Total interest sensitivity gap	4,918,441	-	-	-	-	(4,918,441)	-	

38. Financial risk management (cont'd.)

Market risk (cont'd.)

Interest rate risk (cont'd.)

Company 2013	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Total RM'000	Average interest rate % per annum
Assets								
Cash and short-term funds	-	-	-	-	-	4,553,819	4,553,819	
Deposits and placements with financial institutions	-	-	-	-	-	6,953	6,953	3.33
Other receivables (excluding amount due from subsidiaries)	-	-	-	-	-	84,498	84,498	
Amount due from subsidiaries	-	-	-	-	-	52,376	52,376	
Loans, advances and financing:								
- non-impaired	14,951,628	-	-	-	-	14,323,721	29,275,349	7.93
- impaired	-	-	-	-	-	1,070,759	1,070,759	
Sukuk Commodity Murabahah	-	-	-	-	-	578,645	578,645	4.58
Loans to subsidiaries	-	-	-	-	-	101,355	101,355	
Other assets	-	-	-	-	-	130,873	130,873	
Total assets	14,951,628	-	-	-	-	20,902,999	35,854,627	
Bank								
Deposits from customers	-	-	-	-	-	28,192,669	28,192,669	3.59
Bank borrowings	1,440,319	-	-	-	-	-	1,440,319	4.05
Other borrowings	-	-	-	-	-	250,869	250,869	5.50
Recourse obligation on loans/financing sold	-	-	-	-	-	2,267,224	2,267,224	5.20
Sukuk - MBSB SC Murabahah	-	-	-	-	-	492,696	492,696	4.57
Other liabilities	-	-	-	-	-	1,002,140	1,002,140	
Total liabilities	1,440,319	-	-	-	-	32,205,598	33,645,917	
Shareholders' equity	-	-	-	-	-	2,208,710	2,208,710	
Total liabilities and shareholders' equity	1,440,319	-	-	-	-	34,414,308	35,854,627	
On-balance sheet interest sensitivity gap	13,511,309	-	-	-	-	(13,511,309)	-	
Total interest sensitivity gap	13,511,309	-	-	-	-	(13,511,309)	-	

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

Liquidity risk

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

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

Analysis of financial instruments by remaining contractual maturities

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

Group	2014 RM'000			Total
	On demand or within one year	One to five years	Over five years	
Financial liabilities:				
Deposits from customers	23,871,864	4,181,652	-	28,053,516
Bank borrowings	1,417,234	-	-	1,417,234
Other borrowings	106,732	51,031	-	157,763
Trade and other payables	313,937	-	-	313,937
Recourse obligation on loans/financing sold	168,613	2,350,052	-	2,518,665
Sukuk - MBSB SC Murabahah	166,288	747,267	493,836	1,407,391
	26,044,668	7,330,002	493,836	33,868,506

38. Financial risk management (cont'd.)**Liquidity risk (cont'd.)**

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

Group	2013 RM'000			Total
	On demand or within one year	One to five years	Over five years	
Financial liabilities:				
Deposits from customers	25,950,871	2,637,222	35,169	28,623,262
Bank borrowings	1,445,944	-	-	1,445,944
Other borrowings	100,869	150,000	-	250,869
Trade and other payables	324,206	-	-	324,206
Recourse obligation on loans/financing sold	1,017,785	1,499,371	-	2,517,156
Sukuk - MBSB SC Murabahah	61,232	363,924	163,477	588,633
	28,900,907	4,650,517	198,646	33,750,070

Company	2014 RM'000			Total
	On demand or within one year	One to five years	Over five years	
Financial liabilities:				
Deposits from customers	23,871,864	4,181,652	-	28,053,516
Bank borrowings	1,417,234	-	-	1,417,234
Other borrowings	106,732	51,031	-	157,763
Trade and other payables	1,639,239	-	-	1,639,239
Recourse obligation on loans/financing sold	168,613	2,350,052	-	2,518,665
Sukuk - MBSB SC Murabahah	166,288	747,267	493,836	1,407,391
	27,369,970	7,330,002	493,836	35,193,808

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

38. Financial risk management (cont'd.)

Liquidity risk (cont'd.)

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

Company	2013 RM'000			Total
	On demand or within one year	One to five years	Over five years	
Financial liabilities:				
Deposits from customers	25,950,871	2,637,222	35,169	28,623,262
Bank borrowings	1,445,944	-	-	1,445,944
Other borrowings	100,869	150,000	-	250,869
Trade and other payables	914,101	-	-	914,101
Recourse obligation on loans/financing sold	1,017,785	1,499,371	-	2,517,156
Sukuk - MBSB SC Murabahah	61,232	363,924	163,477	588,633
	29,490,802	4,650,517	198,646	34,339,965

At the reporting date, the counterparties to the financial guarantees do not have a right to demand cash as the default event has not occurred. Accordingly, financial guarantees under the scope of MFRS 139 are not included in the above maturity profile analysis.

39. Capital management

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

The Group and the Company manage their capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2013.

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).

40. Fair values

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

	Note	Group		Company	
		Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
2014					
Financial assets					
Loans, advances and financing	9	31,032,148	28,592,000	31,081,954	28,629,774
Sukuk Commodity Murabahah	10(b)	-	-	1,373,565	1,349,946
Financial liabilities					
Sukuk - MBSB SC Murabahah	10(a)	1,150,124	1,126,591	1,150,124	1,126,591
Deposits from customers	16	27,530,858	26,987,309	27,530,858	26,987,309
Other borrowings	17	150,544	157,219	150,544	157,219
Recourse obligation on loans/financing sold	20	2,373,039	2,500,518	2,373,039	2,500,518
2013					
Financial assets					
Loans, advances and financing	9	30,296,222	29,832,777	30,346,108	29,897,094
Sukuk Commodity Murabahah	10(b)	-	-	578,645	578,137
Financial liabilities					
Sukuk - MBSB SC Murabahah	10(a)	492,696	492,265	492,696	492,265
Deposits from customers	16	28,192,669	27,839,933	28,192,669	27,839,933
Other borrowings	17	250,869	268,906	250,869	268,906
Recourse obligation on loans/financing sold	20	2,267,224	2,479,507	2,267,224	2,479,507

Loans, advances and financing

The fair value of fixed rate loans with remaining maturities of less than one year and variable rate loans are estimated to approximate the carrying amount. For fixed rate loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at prevailing rates offered for similar loans to new borrowers with similar credit profiles as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

40. Fair values (cont'd.)

- (a) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximations of fair value (cont'd.)

Loans, advances and financing (cont'd.)

The fair value of impaired fixed and variable rates loans is represented by their carrying amount, net of individual impairment provisions, being the expected recoverable amount.

Sukuk Commodity Murabahah and Sukuk - MBSB SC Murabahah

The fair values of both Sukuk Commodity Murabahah and Sukuk - MBSB SC Murabahah are estimated by discounting expected future cash flows at the effective profit rate of similar instruments.

Deposits from customers

The fair values of deposits payable on demand and deposits and placements with maturities of less than one year approximate their carrying values due to the relatively short tenure of these instruments. The fair values of fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using market rates currently offered for deposits and placements with similar remaining maturities.

Other borrowings

The fair values of other borrowings are estimated by discounting expected future cash flows at market incremental lending rates for similar types of lending, borrowing or leasing arrangements at the reporting date.

Recourse obligation on loans/financing sold

The fair values for recourse obligations on loans/financing sold to Cagamas Berhad are determined based on discounted cash flows of future instalment payments at prevailing rates quoted by Cagamas Berhad as at reporting date.

40. Fair values (cont'd.)

- (b) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value.

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value:

	Note
Cash and short-term funds	5 (a)
Deposits and placements with financial institutions	5 (b)
Trade receivables	6
Other receivables (excluding foreclosed properties, and prepayments and deposits)	7
Loans to subsidiaries	11 (b)
Bank borrowings	17
Trade payables	18
Other payables	19

The carrying amounts of these financial assets and liabilities are reasonable approximations of fair values, either due to their short-term nature or the fact that these are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

Determination of fair value and fair value hierarchy

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets and liabilities:

	Fair value measurement using			
	Total RM'000	Quoted prices in active markets (Level 1) RM'000	Significant observable inputs (Level 2) RM'000	Significant unobservable inputs (Level 3) RM'000
Group				
31 December 2014				
Assets for which fair values are disclosed				
Loans, Advances and Financing	28,592,000	-	25,168,145	3,423,855
Liabilities for which fair values are disclosed				
Sukuk - MBSB SC Murabahah	1,126,591	-	1,126,591	-
Deposits from customers	26,987,309	-	26,987,309	-
Other borrowings	157,219	-	-	157,219
Recourse obligation on loans/financing sold	2,500,518	-	-	2,500,518
Total	30,771,637	-	28,113,900	2,657,737

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

40. Fair values (cont'd.)

Determination of fair value and fair value hierarchy (cont'd.)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities (cont'd.):

	Fair value measurement using			
	Total RM'000	Quoted prices in active markets (Level 1) RM'000	Significant observable inputs (Level 2) RM'000	Significant unobservable inputs (Level 3) RM'000
Group				
31 December 2013				
Assets for which fair values are disclosed				
Loans, Advances and Financing	29,832,777	-	27,340,725	2,492,052
Investment properties (Note 12)	519	-	519	-
Total	29,833,296	-	27,341,244	2,492,052
Liabilities for which fair values are disclosed				
Sukuk - MBSB SC Murabahah	492,265	-	492,265	-
Deposits from customers	27,839,933	-	27,839,933	-
Other borrowings	268,906	-	-	268,906
Recourse obligation on loans/financing sold	2,479,507	-	-	2,479,507
Total	31,080,611	-	28,332,198	2,748,413

40. Fair values (cont'd.)

Determination of fair value and fair value hierarchy (cont'd.)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities (cont'd.):

	Fair value measurement using			
	Total RM'000	Quoted prices in active markets (Level 1) RM'000	Significant observable inputs (Level 2) RM'000	Significant unobservable inputs (Level 3) RM'000
Company				
31 December 2014				
Assets for which fair values are disclosed				
Loans, Advances and Financing	28,629,774	-	25,168,145	3,461,629
Sukuk Commodity Murabahah	1,349,946	-	1,349,946	-
Total	29,979,720	-	26,518,091	3,461,629
Liabilities for which fair values are disclosed				
Sukuk - MBSB SC Murabahah	1,126,591	-	1,126,591	-
Deposits from customers	26,987,309	-	26,987,309	-
Other borrowings	157,219	-	-	157,219
Recourse obligation on loans/financing sold	2,500,518	-	-	2,500,518
Total	30,771,637	-	28,113,900	2,657,737

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

40. Fair values (cont'd.)

Determination of fair value and fair value hierarchy (cont'd.)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities (cont'd.):

	Fair value measurement using			
	Total RM'000	Quoted prices in active markets (Level 1) RM'000	Significant observable inputs (Level 2) RM'000	Significant unobservable inputs (Level 3) RM'000
Company				
31 December 2013				
Assets for which fair values are disclosed				
Loans, Advances and Financing	29,897,094	-	27,340,725	2,556,369
Sukuk Commodity Murabahah	578,137	-	578,137	-
Total	30,475,231	-	27,918,862	2,556,369
Liabilities for which fair values are disclosed				
Sukuk - MBSB SC Murabahah	492,265	-	492,265	-
Deposits from customers	27,839,933	-	27,839,933	-
Other borrowings	268,906	-	-	268,906
Recourse obligation on loans/financing sold	2,479,507	-	-	2,479,507
Total	31,080,611	-	28,332,198	2,748,413

40. Fair values (cont'd.)

Determination of fair value and fair value hierarchy (cont'd.)

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant unobservable inputs	Range (weighted average)
Bridging, structured and term loans and financing	*DCF method	Interest/profit rate	6.1%-11.5% (6.7%)
Other borrowings	*DCF method	Interest/profit rate	5.5% (5.5%)
Recourse obligation on loans/financing sold	*DCF method	Interest/profit rate	4.8%-5.8% (5.2%)

* DCF method refers to the discounted cash flows method where future expected cash flows are discounted at rates prevailing at the reporting date.

Movement of significant unobservable inputs (Level 3)

The following tables present additional information about Level 3 financial assets and financial liabilities measured at fair value on a recurring basis:

	At 1 January RM'000	Repayments RM'000	Drawdown RM'000	Repurchase RM'000	Disbursement RM'000	Interest RM'000	Collections RM'000	Write off RM'000	Impairment RM'000	At 31 December RM'000
Group										
As at 31.12.2014										
Financial assets										
Bridging, structured and term loans and financing	2,492,052	-	-	-	2,360,516	236,416	(1,765,906)	(78,216)	178,993	3,423,855
	2,492,052	-	-	-	2,360,516	236,416	(1,765,906)	(78,216)	178,993	3,423,855
Financial liabilities										
Other borrowings	268,906	(111,687)	-	-	-	-	-	-	-	157,219
Recourse obligation on loans/financing sold	2,479,507	(1,000,586)	1,000,000	21,597	-	-	-	-	-	2,500,518
	2,748,413	(1,112,273)	1,000,000	21,597	-	-	-	-	-	2,657,737

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

40. Fair values (cont'd.)

Movement of significant unobservable inputs (Level 3) (cont'd.)

	At 1 January RM'000	Repayments RM'000	Drawdown RM'000	Repurchase RM'000	Disbursement RM'000	Interest RM'000	Collections RM'000	Write off RM'000	Impairment RM'000	At 31 December RM'000
Company										
As at 31.12.2014										
Financial assets										
Bridging, structured and term loans and financing	2,556,369	-	-	-	2,360,516	236,416	(1,765,906)	(78,216)	152,450	3,461,629
	2,556,369	-	-	-	2,360,516	236,416	(1,765,906)	(78,216)	152,450	3,461,629
Financial liabilities										
Other borrowings	268,906	(111,687)	-	-	-	-	-	-	-	157,219
Recourse obligation on loans/financing sold	2,479,507	(1,000,586)	1,000,000	21,597	-	-	-	-	-	2,500,518
	2,748,413	(1,112,273)	1,000,000	21,597	-	-	-	-	-	2,657,737
Group										
As at 31.12.2013										
Financial assets										
Bridging, structured and term loans and financing	1,761,618	-	-	-	1,657,245	159,181	(1,066,283)	(1,348,662)	1,328,953	2,492,052
	1,761,618	-	-	-	1,657,245	159,181	(1,066,283)	(1,348,662)	1,328,953	2,492,052
Financial liabilities										
Other borrowings	386,094	(117,188)	-	-	-	-	-	-	-	268,906
Recourse obligation on loans/financing sold	2,367,353	-	-	112,154	-	-	-	-	-	2,479,507
	2,753,447	(117,188)	-	112,154	-	-	-	-	-	2,748,413

40. Fair values (cont'd.)

Movement of significant unobservable inputs (Level 3) (cont'd.)

	At 1 January RM'000	Disbursement RM'000	Interest RM'000	Collections RM'000	Write off RM'000	Impairment RM'000	At 31 December RM'000
Company							
As at 31.12.2013							
Financial assets							
Bridging, structured and term loans and financing	1,825,935	1,657,245	159,181	(1,066,283)	(1,348,662)	1,328,953	2,556,369
	1,825,935	1,657,245	159,181	(1,066,283)	(1,348,662)	1,328,953	2,556,369
Financial liabilities							
Other borrowings	386,094	(117,188)	-	-	-	-	268,906
Recourse obligation on loans/financing sold	2,367,353	112,154	-	-	-	-	2,479,507
	2,753,447	(5,034)	-	-	-	-	2,748,413

41. Segment information

(a) Business segments:

The Group is organised into four major business segments:

- (i) Financing - the granting of loans on the security of freehold and leasehold properties and provision of retail financing and related services;
- (ii) Property development - the development of residential and commercial properties;
- (iii) Leasing of real property - the letting of office buildings; and
- (iv) Hotel operations - the leasing of hotel rooms, sale of food and beverage and other related income.

Other business segments include project management and investment holding, none of which are of a sufficient size to be reported separately.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

41. Segment information (cont'd.)

a) Business segments (cont'd.)

	Financing		Property development		Letting of real property		Hotel operations		Others		Eliminations		Consolidated	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Revenue and expenses														
Revenue														
External sales	2,485,720	2,467,244	30,255	27,252	153	28	9,155	12,720	53,853	3,749	33,376	25,097	2,612,512	2,536,090
Inter-segment sales	46,943	41,288	-	-	1,004	1,104	3,416	-	-	-	(51,363)	(42,392)	-	-
Total revenue													2,612,512	2,536,090
Result														
Segment results	913,295	941,605	(18,797)	(36,470)	(10,052)	(8,257)	(10,887)	(7,505)	30,261	3,241	28,736	39,735	932,556	932,349
Taxation													87,818	(331,104)
Zakat													(5,345)	(3,677)
Net profit for the year													1,015,029	597,568
Assets														
Segment assets	38,976,306	35,854,627	30,280	38,528	6,800	7,299	75,478	80,496	1,409,399	582,569	(2,832,360)	(1,314,485)	37,665,903	35,249,034
Unallocated corporate assets													-	-
Consolidated total assets													37,665,903	35,249,034
Liabilities														
Segment liabilities	34,288,373	33,645,917	423,151	370,020	121,585	112,032	152,084	146,190	1,378,441	581,418	(3,380,144)	(1,792,753)	32,983,490	33,062,824
Unallocated corporate liabilities													-	-
Consolidated total liabilities													32,983,490	33,062,824
Other Information														
Capital expenditure	10,874	11,690	42,415	-	-	-	131	232	-	-	-	-	53,420	11,922
Depreciation investment properties and property, plant and equipment	11,203	9,255	-	-	198	743	2,880	2,954	-	-	228	228	14,509	13,180
Amortisation of land used rights and intangible assets	12,271	10,948	-	-	20	21	182	185	-	-	-	-	12,473	11,154
Impairment for investments in subsidiaries	(5,478)	(2,088)	-	-	-	-	-	-	-	-	5,478	2,088	-	-
Non-cash expenses other than depreciation, amortisation and impairment losses	137,903	298,938	30,255	27,239	-	(7)	88	4	-	-	(9,594)	(5,077)	158,652	321,097

(b) Geographical Segments:

The Group's activities are in Malaysia, therefore segmental reporting is not analysed by geographical locations.

42. The operations of Islamic business

Statements of financial position as at 31 December 2014

	Note	Group		Company	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Assets					
Cash and short - term funds	(a)	4,447,110	3,143,346	4,434,701	3,135,815
Deposits and placements with financial institutions	(a)	83,142	6,686	7,841	6,686
Financing	(b)	25,962,554	25,012,990	25,962,554	25,012,990
Other receivables	(c)	776,974	666,394	758,386	666,159
Sukuk Commodity Murabahah		-	-	1,373,565	578,645
Amount due from a subsidiary		-	-	1,806	31
Total assets		31,269,780	28,829,416	32,538,853	29,400,326
Liabilities					
Deposits from customers	(d)	21,054,086	21,084,262	21,054,086	21,084,262
Other payables	(e)	4,328,524	4,165,588	4,328,102	4,165,350
Bank borrowings		600,510	600,131	600,510	600,131
Other borrowings		150,544	250,869	150,544	250,869
Recourse obligation on financing sold		1,477,120	482,832	1,477,120	482,832
Amount due to Special Purpose Vehicle ("SPV")		-	-	1,302,779	574,487
Sukuk - MBSB SC Murabahah		1,150,124	492,696	1,150,124	492,696
Provision for taxation		201,552	252,093	201,552	252,093
Provision for zakat		5,712	3,987	5,712	3,987
Total liabilities		28,968,172	27,332,458	30,270,529	27,906,707
Islamic fund		4,000	4,000	4,000	4,000
Retained profits		2,297,608	1,492,958	2,264,324	1,489,619
		2,301,608	1,496,958	2,268,324	1,493,619
Total liabilities and Islamic fund		31,269,780	28,829,416	32,538,853	29,400,326

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

42. The operations of Islamic business (cont'd.)

Statements of comprehensive income for the year ended 31 December 2014

	Note	Group		Company	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Income derived from investment of general investment deposits and Islamic capital funds	(f)	1,995,329	1,975,818	1,964,586	1,972,476
Income attributable to depositors		(967,925)	(710,954)	(967,925)	(710,954)
Net income from financing operations		1,027,404	1,264,864	996,661	1,261,522
Other income		68,844	58,579	68,844	58,579
Profit expenses		(64)	-	-	-
Other expenses	(g)	(186,229)	(143,237)	(185,948)	(143,234)
Allowance for losses on financing		(73,350)	(168,491)	(73,350)	(168,491)
Profit before taxation and zakat		836,605	1,011,715	806,207	1,008,376
Taxation	(i)	(26,610)	(252,094)	(26,157)	(252,094)
Zakat		(5,345)	(3,677)	(5,345)	(3,677)
Profit after taxation and zakat		804,650	755,944	774,705	752,605

Statements of changes in equity for the year ended 31 December 2014

Group	Islamic fund RM'000	Retained profits RM'000	Total RM'000
At 1 January 2013	4,000	737,014	741,014
Profit after taxation and zakat	-	755,944	755,944
At 31 December 2013	4,000	1,492,958	1,496,958
At 1 January 2014	4,000	1,492,958	1,496,958
Profit after taxation and zakat	-	804,650	804,650
At 31 December 2014	4,000	2,297,608	2,301,608

42. The operations of Islamic business (cont'd.)

Statements of changes in equity for the year ended 31 December 2014 (cont'd.)

Company	Islamic fund RM'000	Retained profits RM'000	Total RM'000
At 1 January 2013	4,000	737,014	741,014
Profit after taxation and zakat	-	752,605	752,605
At 31 December 2013	4,000	1,489,619	1,493,619
At 1 January 2014	4,000	1,489,619	1,493,619
Profit after taxation and zakat	-	774,705	774,705
At 31 December 2014	4,000	2,264,324	2,268,324

Statements of cash flows for the year ended 31 December 2014

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Cash flows from operating activities				
Profit before taxation and zakat	836,605	1,011,715	806,207	1,008,376
Adjustments for:				
Profit income adjustments on:				
- Financing	265,461	168,342	265,461	168,342
- Sukuk Commodity Murabahah	-	-	(23,110)	(508)
- Sukuk - MBSB SC Murabahah	(2,173)	(431)	(2,173)	(431)
Allowance for impairment losses on financing	73,350	168,491	73,350	168,491
Operating profit before working capital changes	1,173,243	1,348,117	1,119,735	1,344,270
Increase in deposits with financial institutions	(76,456)	(1,591)	(1,155)	(1,591)
Increase in financing	(1,288,374)	(5,881,068)	(1,288,374)	(5,881,068)
Decrease in other receivables	64,362	171,307	83,168	171,573
Increase in Sukuk Commodity Murabahah	-	-	(771,809)	(578,137)
(Decrease)/increase in deposits from customers	(30,176)	5,819,310	(30,176)	5,819,310
Increase in other borrowings	378	-	378	-
Decrease in other borrowings	(100,325)	(100,334)	(100,325)	(100,334)
Amount due to SPV	-	-	728,292	574,487
Amount due from subsidiary	-	-	(1,775)	(31)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

42. The operations of Islamic business (cont'd.)

Statements of cash flows for the year ended 31 December 2014 (cont'd.)

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
(Decrease)/increase in other payables	(89,157)	517,011	(89,342)	516,742
Increase in sukuk MBSB SC Murabahah	659,601	491,966	659,601	491,966
(Decrease)/increase in recourse obligation on financing sold	994,288	(17,556)	994,288	(17,556)
Cash generated from operations	1,307,384	2,347,162	1,302,506	2,339,631
Zakat paid	(3,620)	(1,708)	(3,620)	(1,708)
Net cash generated from operating activities	1,303,764	2,345,454	1,298,886	2,337,923
Net increase in cash and cash equivalents	1,303,764	2,345,454	1,298,886	2,337,923
Cash and cash equivalents at beginning of financial year	3,143,346	797,892	3,135,815	797,892
Cash and cash equivalents at end of financial year	4,447,110	3,143,346	4,434,701	3,135,815

(a) Cash and short-term funds and deposits and placements with financial institutions

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Cash and short-term funds:				
Cash at banks	308,226	184,445	295,817	176,914
Money at call	2,338,472	1,550,234	2,338,472	1,550,234
Deposits and placements with financial institutions with maturity less than one month	1,800,412	1,408,667	1,800,412	1,408,667
	4,447,110	3,143,346	4,434,701	3,135,815
Deposits and placements with financial institutions with maturity of more than one month	83,142	6,686	7,841	6,686
	4,530,252	3,150,032	4,442,542	3,142,501

The weighted average effective yield rates of deposits with financial institutions at the reporting date was 3.48% (2013: 3.34%).

42. The operations of Islamic business (cont'd.)

(b) Financing

	Group and Company	
	2014	2013
	RM'000	RM'000
(i) By type:		
Term financing		
Corporate financing	2,204,727	504,681
Property financing	4,244,196	4,292,516
Personal financing	39,240,740	40,948,078
Auto financing	139,741	109,299
Staff financing	20,324	17,179
Less: Unearned income	(19,143,455)	(20,186,287)
	26,706,273	25,685,466
Allowance for impaired financing:		
- Collective allowance	(743,719)	(672,230)
- Individual allowance	-	(246)
Net financing	25,962,554	25,012,990
(ii) By contract:		
Bai Bithaman Ajil (deferred payment sale)	1,699,574	1,744,117
Bai Al-Inah (cost-plus)	14,354,164	14,778,069
Tawarruq	9,178,015	8,715,708
Contract financing	1,474,520	447,572
	26,706,273	25,685,466

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

42. The operations of Islamic business (cont'd.)

(b) Financing (cont'd.)

	Group and Company	
	2014	2013
	RM'000	RM'000
(iii) Impaired loans		
Balance as at 1 January	616,734	536,113
Classified as impaired during the year	1,678,475	500,077
Reclassified as non-impaired during the year	(1,136,111)	(374,200)
Amount recovered	(812)	-
Amount written off	-	(45,256)
Balance as at 31 December	1,158,286	616,734
Individual/collective allowance	(404,518)	(218,325)
Net impaired financing	753,768	398,409
Net impaired loans as a percentage of net financing	2.9%	1.6%
(iv) Movements in allowance for impairment are as follows:		
Collective impairment		
Balance as at 1 January	672,230	506,344
Impairment during the year	71,428	166,682
Reclassification*	61	(796)
Balance as at 31 December	743,719	672,230
Individual Impairment		
Balance as at 1 January	246	36,452
Write back during the year	(246)	-
Impairment during the year	-	246
Reclassification*	-	(36,452)
Balance as at 31 December	-	246

* Reclassification of collective allowance (out of)/into the Islamic fund.

* Reclassification of collective allowance (out of)/into the Islamic fund.

42. The operations of Islamic business (cont'd.)

(c) Other receivables

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Interbranch transaction	-	531,521	-	531,521
Deferred expenses due to issuance of Sukuk Commodity Murabahah	178	179	-	-
Deferred expenses due to issuance of Sukuk - MBSB SC Murabahah	3,425	3,432	3,425	3,432
Deferred tax asset	175,395	-	175,395	-
Others	597,976	131,262	579,566	131,206
	776,974	666,394	758,386	666,159

(d) Deposits from customers

(i) By type of deposit:

	Group and Company	
	2014 RM'000	2013 RM'000
Al-Wadiah savings account	39,173	31,085
Mudharabah Fund	21,014,913	21,053,177
	21,054,086	21,084,262

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

42. The operations of Islamic business (cont'd.)

(d) Deposits from customers (cont'd.)

(ii) By type of customer:

	Group and Company	
	2014	2013
	RM'000	RM'000
Business enterprises	20,974,357	21,031,691
Individuals	79,729	52,571
	21,054,086	21,084,262

(iii) By maturity of deposits from customers:

	Group and Company	
	2014	2013
	RM'000	RM'000
Within one year	19,972,862	19,864,952
More than one year	1,081,224	1,219,310
	21,054,086	21,084,262

(e) Other payables

	Group		Company	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Amount due to conventional	-	3,015,834	-	3,015,834
Interbranch transaction	2,550,231	-	2,550,231	-
Al-Mudharabah security deposits	94,946	98,592	94,946	98,592
Disbursement payable	62,299	47,209	62,299	47,209
Proportionate operating expenses	520,892	371,332	520,892	371,332
Deferred income - amortisation of transaction cost	86,365	142,166	86,365	142,166
Others	1,013,791	490,455	1,013,369	490,217
	4,328,524	4,165,588	4,328,102	4,165,350

42. The operations of Islamic business (cont'd.)**(f) Income derived from investment of General Investment Deposits and Islamic capital funds**

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Financing	1,836,402	1,931,377	1,836,402	1,931,377
Profit income from Sukuk Commodity Murabahah	52,038	3,749	23,111	407
Deposits with financial institutions	106,889	40,692	105,073	40,692
	1,995,329	1,975,818	1,964,586	1,972,476

(g) Other expenses

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Personnel expenses (Note 43(h))	63,800	62,383	63,800	62,383
Promotion and marketing related expenses	9,461	15,854	9,461	15,854
General administrative expenses	112,968	65,000	112,687	64,997
	186,229	143,237	185,948	143,234

(h) Personnel expenses

	Group and Company	
	2014 RM'000	2013 RM'000
Wages and salaries	55,838	53,097
Social security costs	347	353
Pension costs - Employees Provident Fund	7,615	8,933
	63,800	62,383

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

42. The operations of Islamic business (cont'd.)

(i) Taxation

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2013: 25%) of the estimated assessable profit for the year.

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Profit before taxation and zakat	836,605	1,011,715	806,207	1,008,376
Taxation at Malaysian statutory tax rate of 25% (2012: 25%)	209,151	252,929	201,552	252,094
Overprovision of deferred tax in prior years	(175,395)	-	(175,395)	-
Effect of income not subject to tax	(7,146)	(835)	-	-
Tax expense for the year	26,610	252,094	26,157	252,094

42. The operations of Islamic business (cont'd.)

(j) Yield/profit rate risk

The table below summarises the Group's and the Company's exposure to yield/profit rate risk for the Islamic business operations. The table indicates effective average yield/profit rates at the reporting date and the periods in which the financial instruments either reprice or mature, whichever is earlier.

Group 2014	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-yield/ profit rate sensitive RM'000	Total RM'000	Average yield/profit rate % per annum
Assets								
Cash and short-term funds	-	-	-	-	-	4,447,110	4,447,110	
Deposits and placements with financial institutions	-	-	-	-	-	83,142	83,142	
Financing:								
- non-impaired	2,185,738	-	-	-	-	23,023,048	25,208,786	7.58
- impaired	-	-	-	-	-	753,768	753,768	
Other receivables	-	-	-	-	-	601,579	601,579	
Total assets	2,185,738	-	-	-	-	28,908,647	31,094,385	
Liabilities								
Deposits from customers	-	-	-	-	-	21,054,086	21,054,086	
Recourse obligation on financing sold	-	-	-	-	-	1,477,120	1,477,120	
Sukuk - MBSB SC Murabahah	-	-	-	-	-	1,150,124	1,150,124	
Other liabilities	-	-	-	-	-	5,111,447	5,111,447	
Total liabilities	-	-	-	-	-	28,792,777	28,792,777	
Equity	-	-	-	-	-	2,301,608	2,301,608	
Total liabilities and equity	-	-	-	-	-	31,094,385	31,094,385	
On-balance sheet yield/ profit sensitivity gap	2,185,738	-	-	-	-	(2,185,738)	-	
Total yield/profit sensitivity gap	2,185,738	-	-	-	-	(2,185,738)	-	

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

42. The operations of Islamic business (cont'd.)

(j) Yield/profit rate risk (cont'd.)

Company 2014	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-yield/ profit rate sensitive RM'000	Total RM'000	Average yield/profit rate % per annum
Assets								
Cash and short-term funds	-	-	-	-	-	4,434,701	4,434,701	
Deposits and placements with financial institutions	-	-	-	-	-	7,841	7,841	
Financing:								
- non-impaired	2,185,738	-	-	-	-	23,023,048	25,208,786	7.58
- impaired	-	-	-	-	-	753,768	753,768	
Sukuk Commodity Murabahah	-	-	-	-	-	1,373,565	1,373,565	
Other receivables	-	-	-	-	-	584,797	584,797	
Total assets	2,185,738	-	-	-	-	30,177,720	32,363,458	
Liabilities								
Deposits from customers	-	-	-	-	-	21,054,086	21,054,086	
Recourse obligation on financing sold	-	-	-	-	-	1,477,120	1,477,120	
Sukuk - MBSB SC Murabahah	-	-	-	-	-	1,150,124	1,150,124	
Amount due to SPV	-	-	-	-	-	1,302,779	1,302,779	
Other liabilities	-	-	-	-	-	5,111,025	5,111,025	
Total liabilities	-	-	-	-	-	30,095,134	30,095,134	
Equity	-	-	-	-	-	2,268,324	2,268,324	
Total liabilities and equity	-	-	-	-	-	32,363,458	32,363,458	
On-balance sheet yield/ profit sensitivity gap	2,185,738	-	-	-	-	(2,185,738)	-	
Total yield/profit sensitivity gap	2,185,738	-	-	-	-	(2,185,738)	-	

42. The operations of Islamic business (cont'd.)

(j) Yield/profit rate risk (cont'd.)

Group 2013	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-yield/ profit rate sensitive RM'000	Total RM'000	Average yield/profit rate % per annum
Assets								
Cash and short-term funds	-	-	-	-	-	3,143,346	3,143,346	
Deposits and placements with financial institutions	-	-	-	-	-	6,686	6,686	
Financing:								
- non-impaired	10,394,567	-	-	-	-	14,220,019	24,614,586	7.91
- impaired	-	-	-	-	-	398,404	398,404	
Other receivables	-	-	-	-	-	134,873	134,873	
Total assets	10,394,567	-	-	-	-	17,903,328	28,297,895	
Liabilities								
Deposits from customers	-	-	-	-	-	21,084,262	21,084,262	
Recourse obligation on financing sold	-	-	-	-	-	482,832	482,832	
Sukuk - MBSB SC Murabahah	-	-	-	-	-	492,696	492,696	
Other liabilities	-	-	-	-	-	4,741,147	4,741,147	
Total liabilities	-	-	-	-	-	26,800,937	26,800,937	
Equity	-	-	-	-	-	1,496,958	1,496,958	
Total liabilities and equity	-	-	-	-	-	28,297,895	28,297,895	
On-balance sheet yield/ profit sensitivity gap	10,394,567	-	-	-	-	(10,394,567)	-	
Total yield/profit sensitivity gap	10,394,567	-	-	-	-	(10,394,567)	-	

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

42. The operations of Islamic business (cont'd.)

(j) Yield/profit rate risk (cont'd.)

Company 2013	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-yield/ profit rate sensitive RM'000	Total RM'000	Average yield/profit rate % per annum
Assets								
Cash and short-term funds	-	-	-	-	-	3,135,815	3,135,815	
Deposits and placements with financial institutions	-	-	-	-	-	6,686	6,686	
Financing:								
- non-impaired	10,394,567	-	-	-	-	14,220,019	24,614,586	7.91
- impaired	-	-	-	-	-	398,404	398,404	
Sukuk Commodity Murabahah	-	-	-	-	-	578,645	578,645	
Other receivables	-	-	-	-	-	134,669	134,669	
Total assets	10,394,567	-	-	-	-	18,474,238	28,868,805	
Liabilities								
Deposits from customers	-	-	-	-	-	21,084,262	21,084,262	
Recourse obligation on financing sold	-	-	-	-	-	482,832	482,832	
Sukuk - MBSB SC Murabahah	-	-	-	-	-	492,696	492,696	
Amount due to SPV	-	-	-	-	-	574,487	574,487	
Other liabilities	-	-	-	-	-	4,740,909	4,740,909	
Total liabilities	-	-	-	-	-	27,375,186	27,375,186	
Equity	-	-	-	-	-	1,493,619	1,493,619	
Total liabilities and equity	-	-	-	-	-	28,868,805	28,868,805	
On-balance sheet yield/ profit sensitivity gap	10,394,567	-	-	-	-	(10,394,567)	-	
Total yield/profit sensitivity gap	10,394,567	-	-	-	-	(10,394,567)	-	

43. Significant events

On 10 July 2014, the Company announced that BNM has, via its letter dated 10 July 2014, stated that it has no objection for MBSB, to commence negotiations with (i) CIMB Group and/or its nominees; and (ii) RHB Capital and/or its nominees for a proposed merger of their businesses and undertakings and the creation of an enlarged Islamic banking franchise ("Proposed Merger"). The approval to commence negotiations is valid for a period of 6 months from the date of BNM's letter. (MBSB, CIMB Group and RHB Capital are collectively defined as the "Parties").

Pursuant to BNM's approval, the Parties have on the same day, entered into an exclusivity agreement to negotiate and finalise pricing, structure, and other relevant terms and conditions for the Proposed Merger for a period of ninety (90) days (unless otherwise agreed by the Parties) ("Exclusivity Period"). There will be an automatic extension of the Exclusivity Period upon submissions being made to BNM by the Parties on the Proposed Merger until the date of execution of the relevant definitive agreement(s) to effect the Proposed Merger.

On 9 October 2014, CIMB Group and RHB Group, as well as their relevant subsidiaries, had made a joint application to BNM to seek the approval of BNM and Ministry of Finance through BNM for, among others, the Proposed Merger of which the Company is a party to.

On 14 January 2015, Aminvestment Bank Berhad had on behalf of the Company announced that CIMB Group has informed the Company that CIMB Group has decided to abort the Proposed Merger. Accordingly, the Board has decided to cease all discussions on the Proposed Merger.

CIMB Group has also informed that CIMB Group and RHB Capital's joint application to Bank Negara Malaysia for the approval of the Proposed Merger has been withdrawn. With that, the exclusivity period pursuant to the exclusivity agreement between CIMB Group, RHB Capital and MBSB dated 10 July 2014 expired on 14 January 2015.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

44. Supplementary information - realised and unrealised profits and losses

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits and losses. On 20 December 2010, Bursa Malaysia issued further guidance on the disclosure and format required.

The breakdown of accumulated losses of the Group and the Company as at the reporting date, into realised and unrealised losses, pursuant to the directive, is as follows:

	Group	
	2014 RM'000	2013 RM'000
Total retained earnings/(accumulated losses) of the Group:		
- Realised	(280,157)	(769,019)
- Unrealised	354,149	(11,967)
	74,334	(780,986)
Add: Consolidation adjustments	582,773	551,469
Group retained earnings/(accumulated losses)	657,107	(229,517)

	Company	
	2014 RM'000	2013 RM'000
Total retained earnings/(accumulated losses) of the Company:		
- Realised	308,136	(195,392)
- Unrealised	354,491	(11,625)
Company retained earnings/(accumulated losses)	662,627	(207,017)

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.



MALAYSIA BUILDING SOCIETY BERHAD (MBSB)
A Subsidiary of the EPF
Your Financial Provider

PROXY FORM

CDS Account No. _____
Number of Shares Held _____

I/We _____ NRIC No. _____
Tel No. _____ of _____
_____ being a member/members of MALAYSIA BUILDING SOCIETY BERHAD hereby appoint
_____ NRIC No. _____
of _____
or failing him _____ NRIC No. _____
of _____
or failing him, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Grand Ballroom, Level 2, Pullman Kuala Lumpur Bangsar, No. 1, Jalan Pantai Jaya, Tower 3, 59200 Kuala Lumpur on Wednesday, 15 April 2015 at 10.00 a.m. and at any adjournment thereof.

My/Our proxy to vote as indicated hereunder.

NO.	RESOLUTIONS	FOR	AGAINST
Ordinary Business:-			
1.	To declare a Single-Tier Final Dividend of 10.0 sen per ordinary share of RM1.00 each for the financial year ended 31 December 2014. Resolution 1		
2.	To declare a Single-Tier Special Dividend of 2.0 sen per ordinary share of RM1.00 each for the financial year ended 31 December 2014. Resolution 2		
3.	To approve payment of Directors' Fees amounting to RM760,000.00 for the financial year ended 31 December 2014 Resolution 3		
4.	To re-elect Datuk Shahril Ridza bin Ridzuan who retire in accordance with Article 86 of the Company's Articles of Association and who being eligible offer himself for re-election. Resolution 4		
5.	To re-elect Encik Aw Hong Boo who retire in accordance with Article 86 of the Company's Articles of Association and who being eligible offer himself for re-election. Resolution 5		
6.	To consider and if thought fit, to pass the following resolution in accordance with Section 129 (6) of the Companies Act, 1965:- "That Tan Sri Abdul Halim bin Ali, retiring pursuant to Section 129 (6) of the Companies Act, 1965, be re-appointed a Director of the Company to hold office until the next Annual General Meeting." Resolution 6		
7.	To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to determine their remuneration. Resolution 7		
Special Business:-			
8.	To authorise the Directors to issue shares pursuant to Section 132D of the Companies Act, 1965. Resolution 8		
9.	To allot and issue shares in relation to the Dividend Reinvestment Plan. Resolution 9		

Date : _____ Signed _____ in the presence of: _____

Notes:

- For the purpose of determining a member who shall be entitled to attend this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 58A(2) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 8 April 2015. Only a depositor whose name appears on the Record of Depositors as at 8 April 2015 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.
- A proxy need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. 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 speak at the meeting.
- In the case of a corporate body, the proxy appointed must be in accordance with its Memorandum & Articles of Association 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.
- 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.
- 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.
- To be valid, the duly completed instrument appointing a proxy must be deposited at the Company's registered office at 11th Floor, Wisma MBSB, 48 Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.

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STAMP

Secretarial Division
MALAYSIA BUILDING SOCIETY BERHAD (9417-K)
11th Floor, Wisma MBSB
No. 48, Jalan Dungun
Damansara Heights
50490 Kuala Lumpur

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