



PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN MIDF

EXTRAORDINARY GENERAL MEETING
27 July 2023

Presentation to shareholders by
ENCIK MOHAMED RAFF MOHAMED HANEEF
GROUP CHIEF EXECUTIVE OFFICER

THE PROPOSED ACQUISITION

MBSB proposes to acquire 100% interest in MIDF for RM1.01 billion

Proposed acquisition involves Malaysia Building Society Berhad (“**MBSB**”) acquiring 480.35 million shares representing 100% equity interest in Malaysian Industrial Development Finance Berhad (“**MIDF**”) from Permodalan Nasional Berhad (“**PNB**”).

Purchase Consideration

: RM1.01 billion

To be settled by:

Issuance of MBSB Shares

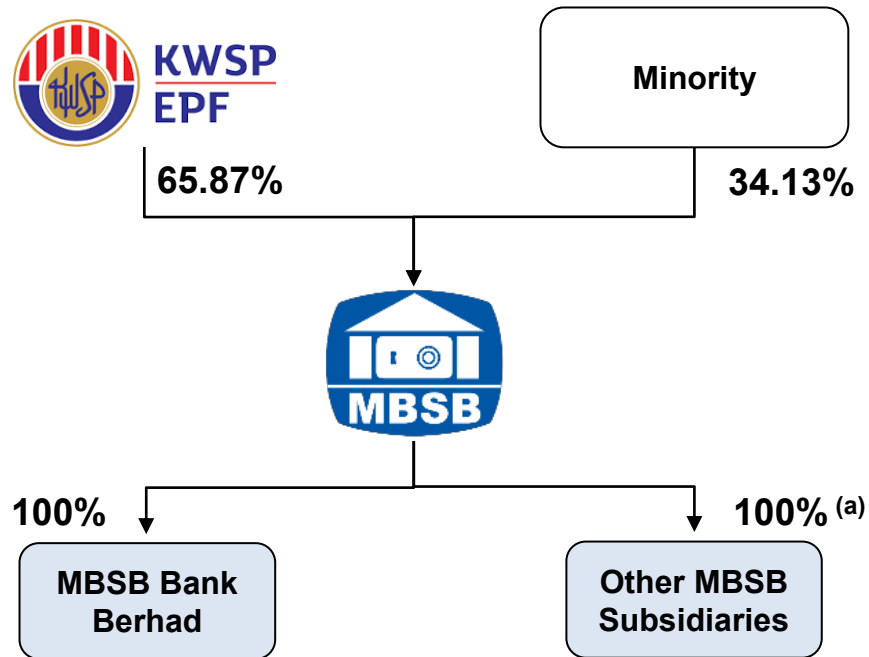
**: 1.05 billion MBSB Shares
@ RM0.9652^(a) per share**

Note: (a) Rounded to 4 decimal points for disclosure purposes

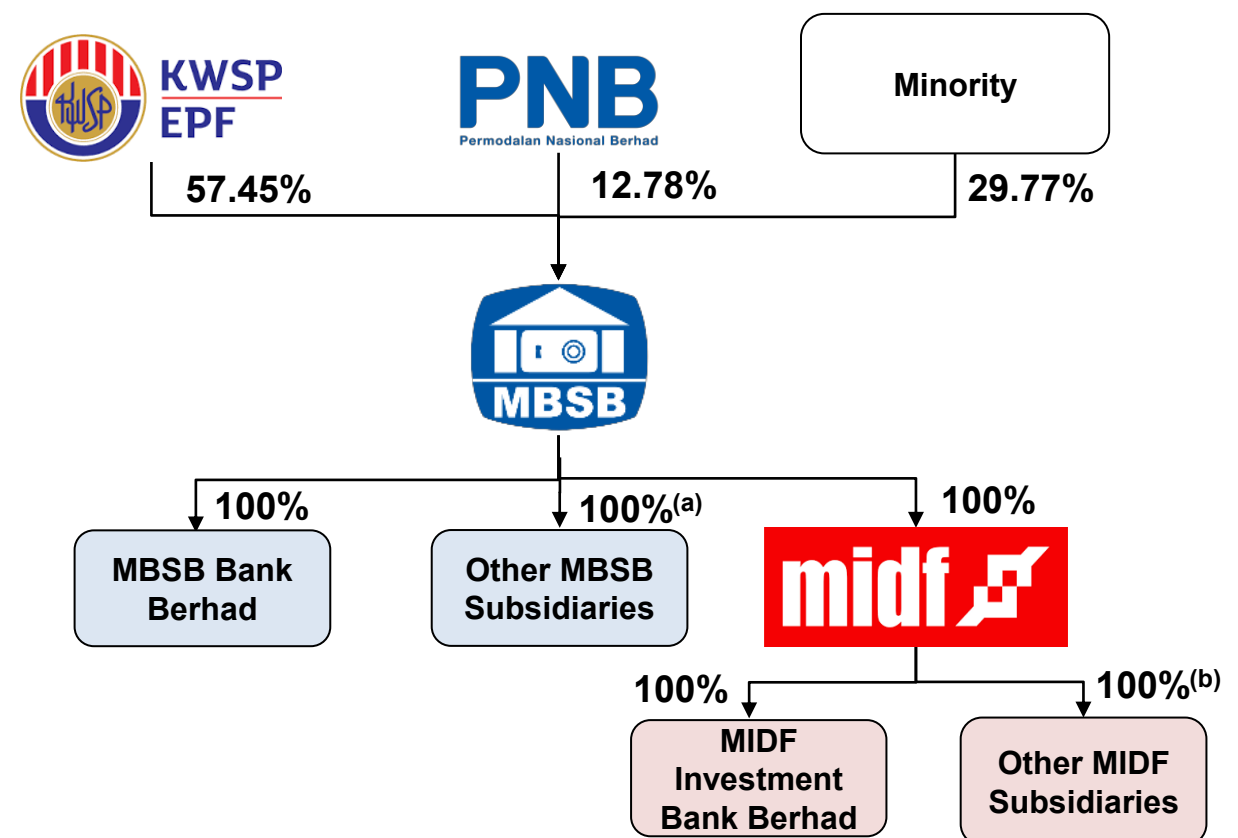
SHAREHOLDING BEFORE AND AFTER THE PROPOSED ACQUISITION

MIDF will become a wholly owned subsidiary of MBSB, and PNB will emerge as a substantial shareholder of MBSB

Existing



After



Notes:

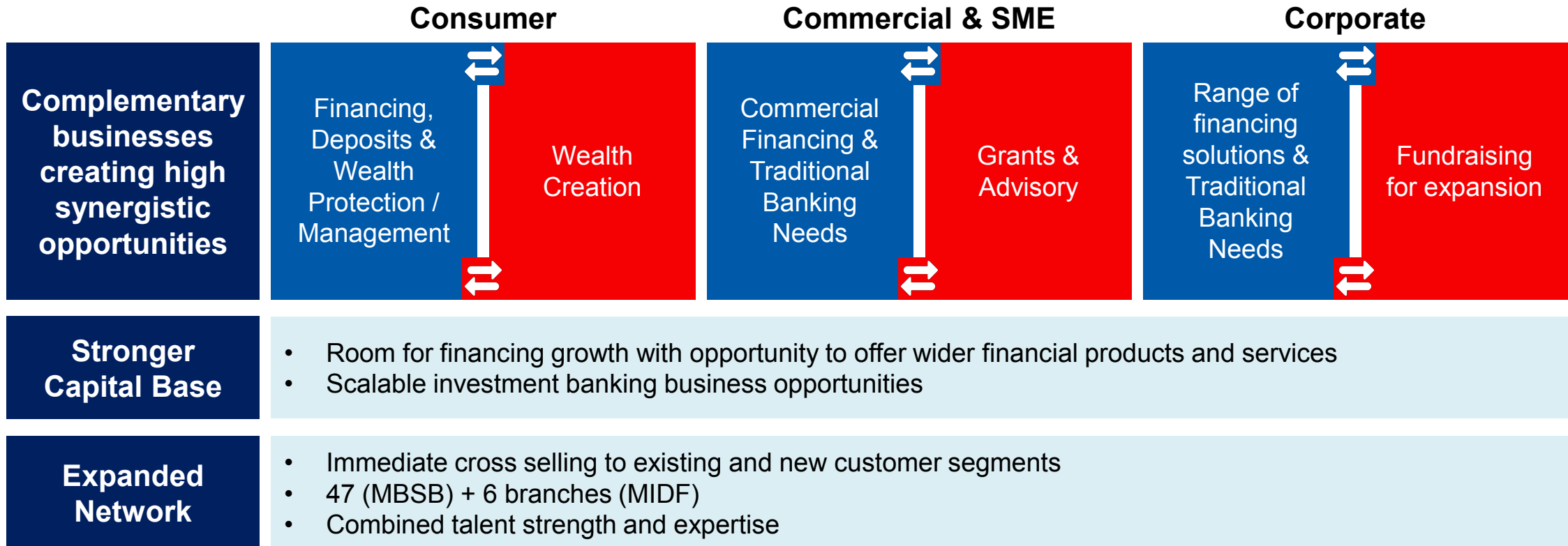
(a) Except for Prudent Legacy Sdn Bhd, in which MBSB owns 92% interest.

(b) Except for Oriental 1963 Berhad, in which MIDF owns 75.2% interest

KEY RATIONALE FOR THE PROPOSED ACQUISITION

The proposed acquisition aims to unlock synergies and capitalise on strategic opportunities in driving value and growth for the Enlarged Group and its shareholders

■ MBSB Bank
■ MIDF



PURCHASE CONSIDERATION

Purchase consideration of RM1.01 billion, 0.85x price to book multiple



2022 MIDF Net Assets (“NA”) Post Adjustments

RM1,186.69m

2022 NA (including non-controlling interests)	1,652.9m
Pre-completion dividend paid on 31.3.2023	(450.0m)
MIDF Adjustment	(16.21m)
	1,186.69m

Adjusted Closing Net Assets Excluding Excess Capital

RM749.56m



Net Excess Capital

RM437.13m

RM1,186.69m

Valued at

0.77x multiple

RM577.16m



1x multiple

RM437.13m

Purchase Consideration

RM1,014.29m

The purchase consideration represents a **price-to-book ratio (“PBR”) of 0.85x** (*RM1.01 billion / RM1.19 billion*) based on 2022 MIDF Net Assets Post Adjustments which is **within the range of 0.39x to 1.47x** of the traded PBR of financial institution/ their holding companies listed in Malaysia

ISSUE PRICE

Issue price of RM0.9652 per share, 0.83x price to book multiple



2022 MBSB Net Assets
Post Adjustments
RM8,302.16m

2022 net assets	8,959.19m
Pre-completion dividend paid on 17.4.2023	(609.57m)
MBSB Adjustment	(47.46m)
	8,302.16m

Adjusted Closing Net Assets After Excess Capital

RM6,272.75m



Net Excess Capital

RM2,029.41m

RM8,302.16m

Valued at

0.78x
multiple

RM4,892.75m



1x
multiple

RM2,029.41m

**Value of
Consideration
Shares**

RM6,922.16m

Issue Price

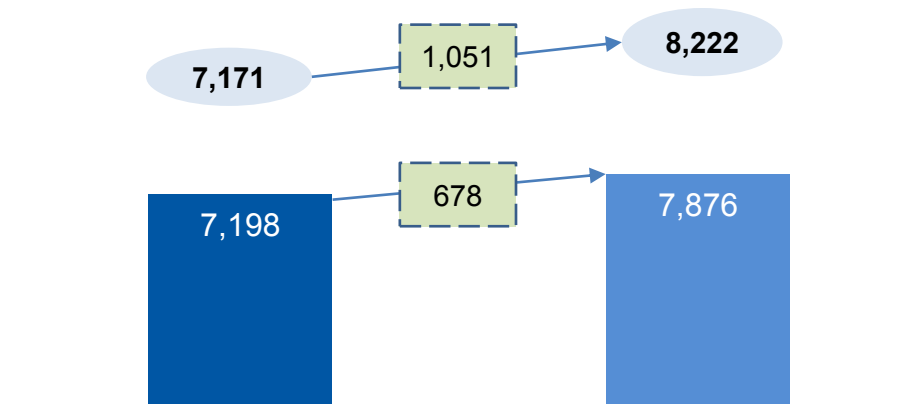
**RM0.9652
per share**

(Value of Consideration Shares divided by 7,171.48m MBSB Shares)

The issue price represents a **PBR of 0.83x** (*RM6.92 billion / RM8.30 billion*) based on 2022 MBSB Net Assets Post Adjustments which is **within the range of 0.39x to 1.47x** of the traded PBR of financial institution/ their holding companies listed in Malaysia.

EFFECTS OF THE PROPOSED ACQUISITION

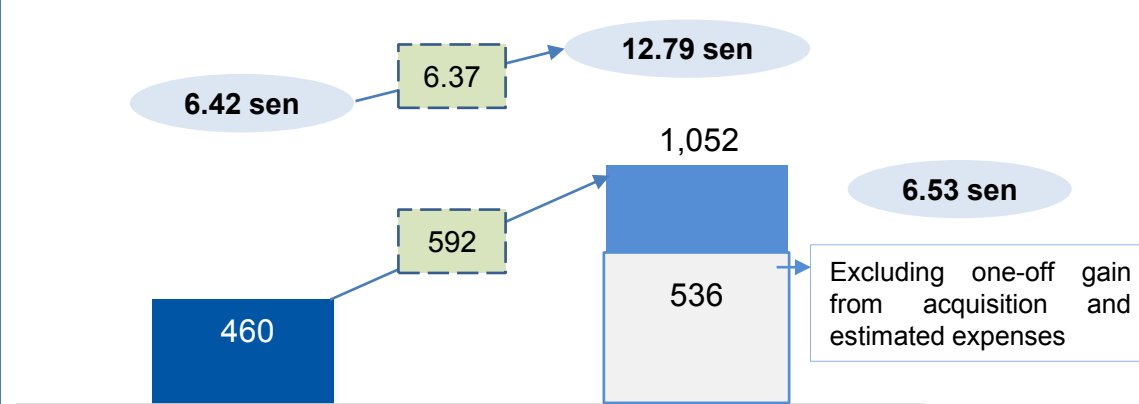
Share Capital (RM' mil)



Existing @ 20 June 2023 After Proposed Acquisition

○ No. of shares

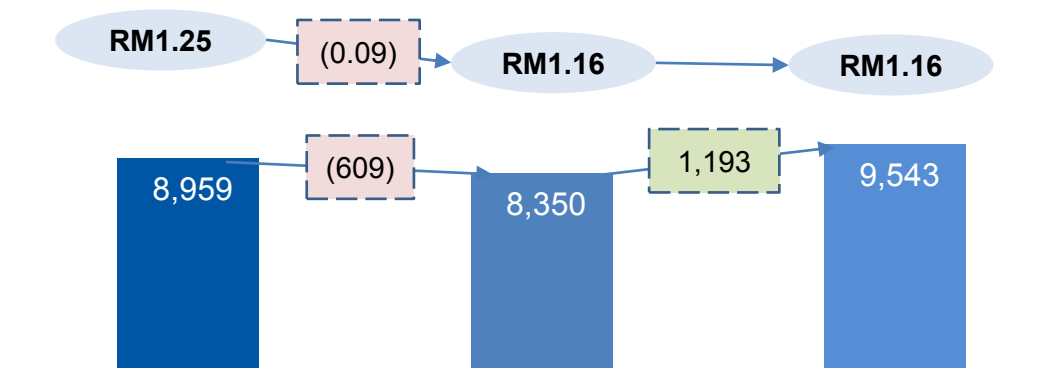
Earnings (RM' mil)



FYE 2022 After Proposed Acquisition

○ EPS

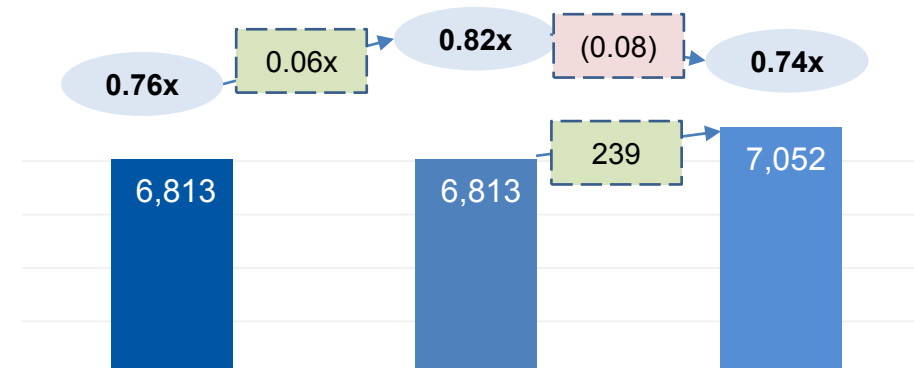
Net Assets (RM' mil)



FYE 2022 After Pre-Completion Dividend After Proposed Acquisition

○ Net assets per share

Borrowings (RM' mil)



FYE 2022 After Pre-Completion Dividend After Proposed Acquisition

○ Gearing

Note: The financial effects above are for illustration purposes based on the financial position as at 31 December 2022 and MBSB's share price as at 20 June 2023, being the latest practical date prior to the date of this circular.

APPROVALS REQUIRED

Approvals required for completion

Completed



13 April 2023

OBTAINED

Approval for the Proposed Acquisition



22 June 2023

OBTAINED

Approval for the listing of and quotation for the Final Consideration Shares on Main Market

Remaining conditions precedent



27 July 2023

TO BE OBTAINED AT THIS EGM

MBSB shareholders' approval



Suruhanjaya Sekuriti
Securities Commission
Malaysia



PENDING

SC's approval for the change in controller of MIDF Amanah Investment Bank Berhad (MAIB) and MIDF Amanah Asset Management Berhad (MAAMB) from PNB to MBSB

Barring unforeseen circumstances and subject to regulatory approvals, completion is expected to be in August 2023.

INDEPENDENT ADVISER'S RECOMMENDATION

kenanga

Kenanga Investment Bank Berhad
Registration No.: 197301002193 (15678-H)

INDEPENDENT ADVISERS' RECOMMENDATION

Kenanga Investment Bank Berhad, the Independent Adviser for the Proposed Acquisition is of the opinion that the Proposed Acquisition is **FAIR, REASONABLE AND NOT DETRIMENTAL** to the interests of shareholders of MBSB



Accordingly, the Independent Adviser recommends that the shareholders of MBSB **VOTE IN FAVOUR** of the resolution pertaining to the Proposed Acquisition at this EGM

kenanga

Kenanga Investment Bank Berhad
Registration No.: 197301002193 (15678-H)

**Presentation by Kenanga Investment Bank Berhad,
the Independent Adviser for the Proposed Acquisition**

MALAYSIA BUILDING SOCIETY BERHAD ("MBSB" OR THE "COMPANY")

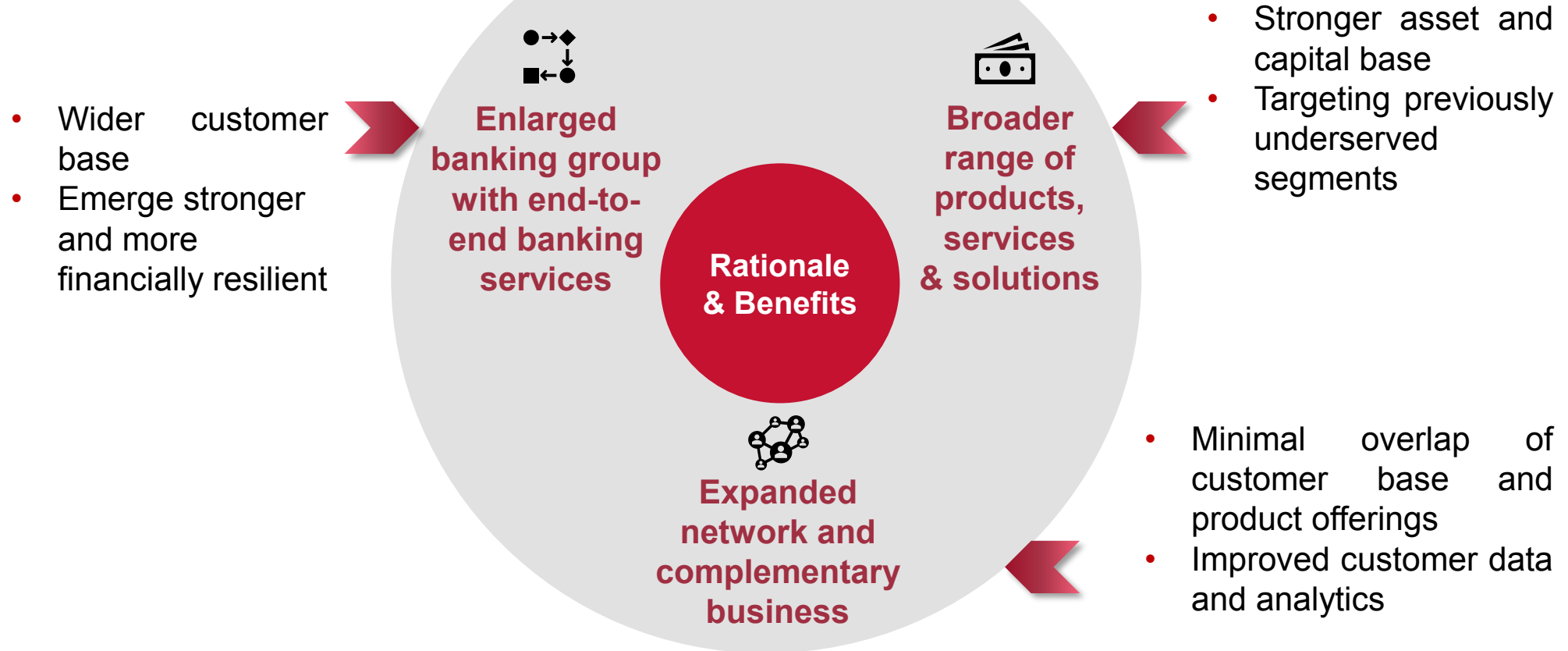
PRESENTATION ON THE INDEPENDENT ADVICE LETTER FROM KENANGA INVESTMENT BANK BERHAD TO THE SHAREHOLDERS OF THE COMPANY IN RELATION TO THE PROPOSED ACQUISITION

27 July 2023



Rationale and benefits of the Proposed Acquisition

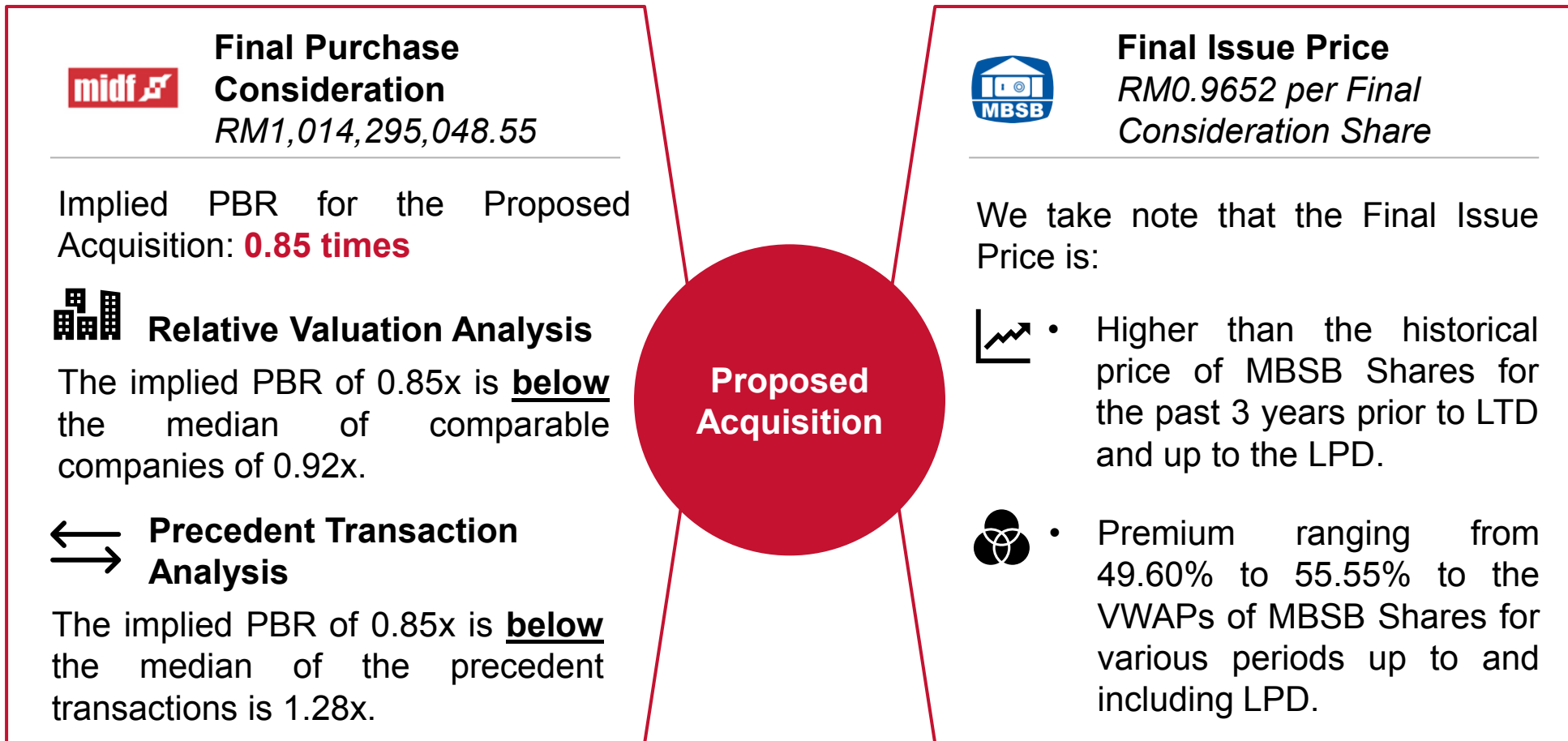
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Based on the above, we are of the opinion that the rationale and benefits of the Proposed Acquisition are **reasonable**.

Evaluation of the Final Purchase Consideration and Final Issue Price

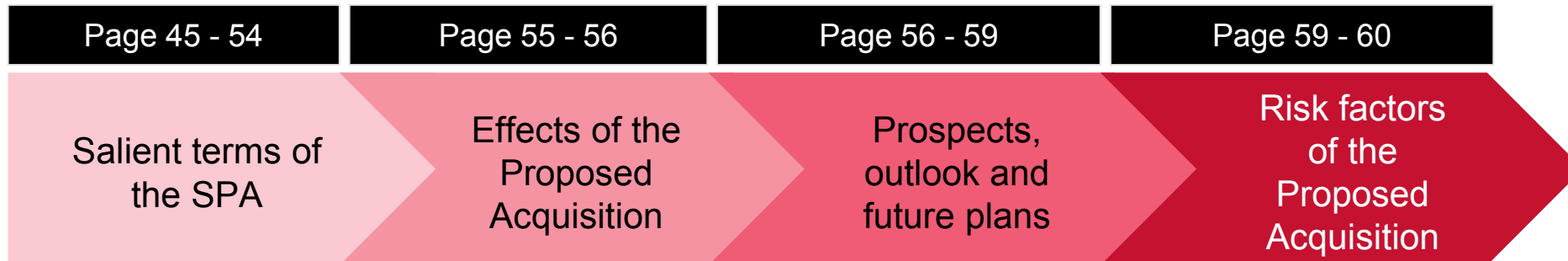
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Premised on our evaluation as detailed in the IAL, we are of the view that the Final Purchase Consideration and Final Issue Price are **fair**.

Conclusion and Our Recommendation

In addition, we have also considered the following factors in our evaluation:



– Conclusion and Our Recommendation:

kenanga

Premised on our detailed evaluation as set out in the IAL, we are of the opinion that the Proposed Acquisition is **fair, reasonable** and **not detrimental to the interests of shareholders of MBSB**.

Accordingly, we recommend that the shareholders to **vote in favour** of the resolution pertaining to the Proposed Acquisition

THANK YOU



kenanga

DIRECTORS' STATEMENT AND RECOMMENDATION

The Board (save for the EPF Nominee Director who has voluntarily abstained) is of the opinion that the Proposed Acquisition is in the best interest of MBSB, **FAIR, REASONABLE AND ON NORMAL COMMERCIAL TERMS, AND NOT DETRIMENTAL** to the interest of the minority shareholders



Accordingly, the Board (save for the EPF Nominee Director who has voluntarily abstained) recommends that you **VOTE IN FAVOUR** of the resolution pertaining to the Proposed Acquisition at this EGM

MINORITY SHAREHOLDERS WATCH GROUP (MSWG) QUERIES

QUESTION 1

1. Post-completion of the Proposed Acquisition, MIDF will become a wholly-owned subsidiary of MBSB.
- 1(a) Moving forward, does MBSB plan to fully integrate MIDF (the entity and/or its businesses) into MBSB Bank to further streamline the organisation structure and operations?

After completing this Acquisition, will MBSB resume the earlier plan of turning MBSB Bank into a holding company and a listed entity?

ANSWER:

Post-completion of the Proposed Acquisition, the enlarged Group comprising MBSB Bank and MIDF will be working together as one team with one common aim to grow the business of the Group. There are presently no immediate plans to amalgamate the assets, liabilities and businesses of MBSB Bank and MIDF Group as a result of the Proposed Acquisition.

At this juncture, there are no plans to turn MBSB Bank into the holding company and a listed entity.

QUESTION 1 (b)

1(b) The Proposed Acquisition would result in an expanded network and complementary businesses, strengthening the enlarged group's footprint.

What is the enlarged number of branches and number of customers post-completion of acquisition?

ANSWER:

The Enlarged Group will possess a combined network of 53 branches spanning Peninsular Malaysia, Sabah, and Sarawak, comprising 47 branches from MBSB Bank and 6 branches from MIDF.

With over 303k retail customers, 4.8k SME customers, and 760 corporate customers, the Enlarged Group's customer base will be significantly strengthened. Additionally, it will serve 5k retail and institutional brokerage customers and 8.4k retail and institutional asset management customers, further expanding its market reach and capabilities.

QUESTION 2

2 MIDF's net profit and return on equity (ROE) for the past three financial years are shown below:

	FY2022	FY2021	FY2020
Profit attributable to shareholders of the company (RM'000)	76,395	33,460	77,150
Shareholders' equity (RM'000)	1,652,660	1,691,573	1,787,768
ROE (%)	4.62	1.98	4.32

Source: page 71, Appendix I, Circular dated 12 July 2023

MIDF's ROEs for the past three years were between 1.98% and 4.62%, compared to 3.1% and 5.2% for MBSB. For perspective, the ROE of Kenanga Investment Bank Berhad (which is involved in comparable businesses) was 10.72%, 11.55% and 5.27% for FY2020, FY2021 and FY2022, respectively.

The Acquisition of MIDF will benefit MBSB in terms of an enlarged financial services group with a wider network and product offerings. How does the Board and management plan to realise the full potential of the enlarged group to be more earnings accretive to be on par with other banking peers?

What are the strategies to achieve the above objectives?

ANSWER:

Enabled by the complementary range of customers and products of MBSB Group and MIDF Group, the Enlarged Group is better positioned to offer end-to-end banking services. MBSB believes that there are more avenues and opportunities for cross-selling complementary and/or existing products and services to the enlarged customer pool. The Consumer, Commercial, SME, and Corporate customers of both banks will have the advantage of a more extensive suite of financial products and services.

QUESTION 2

ANSWER (CONT'D):

Consumer: The integration of MBSB Bank's consumer-focused services with MIDF's asset management division will allow the Enlarged Group to cater to a broader spectrum of customer needs. Customers of MBSB Bank will be able to access wealth creation tools and investment opportunities through MIDF's investment platform, providing them with a holistic approach to manage and grow their assets. Customers of MIDF will also be able access MBSB Bank's retail solutions including property financing and personal financing. Customers will have a seamless and diversified experience under one roof, fostering stronger customer loyalty and retention.

Commercial & SME: Both banking groups have a strong heritage of supporting the micro and SME space in Malaysia. Recognising the sizeable financing gap within the SME market, the merger of both banking groups will add MBSB Bank's range of commercial banking products to MIDF's development finance capabilities, to the Enlarged Group's network of clients. There is also opportunity to originate club deals, combining existing Government Scheme Funds (currently disbursed by MIDF) and proprietary lending products by MBSB Bank to comprehensively meet the financing requirements of SMEs.

Corporate: Complementing MBSB Bank's traditional banking products and services, the merger introduces a compelling fundraising solution and a fuller suite of investment banking services offered by MIDF. These encompass an array of financial offerings, including debt capital market services, equity capital market services, and corporate finance solutions. The integration of these capabilities will enable the Enlarged Group to offer a more comprehensive financial proposition to a wide spectrum of clients. This comprehensive offering is expected to lead to higher customer satisfaction, loyalty, and an increased propensity for clients to engage in more business with the Group, driving earnings growth.

QUESTION 3

3. Despite recording higher operating revenue at RM100.81 million in the three month ended 31 March 2023 for FY2023, MIDF turned loss-making with a net loss of RM1.8 million compared to a net profit of RM16.23 million in the previous corresponding period (page 71, Appendix 1, Circular dated 12 July 2023). The decline was attributable to lower net income from Islamic banking operations and non-interest income, and the absence of impairment write-back during the financial period.
- 3(a) How will MIDF perform financially for the rest of FY2023?

ANSWER:

For the financial period 31 March 2023, whilst MIDF recorded a higher operating revenue of RM100.81million, the overall net income has declined to RM53.3million (31 March 2022 : RM62.9 million).

The decline of net income was attributable to:

- i. Higher cost of funding as observed from the higher interest expense and higher income attributable to depositors (notably this is also similar industry trends particularly pursuant to four revisions of Overnight Policy Rates after 31 March 2022 to 31 March 2023 and the market's anticipation of further rate hikes hence resulting in higher cost of funds);
- ii. Lower investment income particularly attributable to the unrealised marked to market loss on valuation of derivative financial instruments; and
- iii. Lower fee income recognition due to slower progress on mandated deals.

QUESTION 3 (Cont'd)

ANSWER (CONT'D)

On the back of the evolving and challenging operating landscape, MIDF's focus would be to continue to strive and maintain a healthy balance between growth and diligence as it pursues its activities in 2023 whilst ensuring compliance to its regulatory requirements.

For its fee based income, MIDF will continue its efforts on execution of mandated deals and securing new deals while for its fund based income, the primary focus would be to optimise its position in the face of a challenging interest/profit rate environment. In addition, post completion of the proposed acquisition, MIDF looks forward to realising potential synergies with MBSB Bank.

QUESTION 3 (Cont'd)

3(b) For FY2022, MIDF's net impaired loans ratio (NIL) increased to 11.5% from 11.13% in the year before (page 145, Note 11 (b)(i) – Loans, advances and financing, Appendix II, Circular dated 12 July 2023).

Was the NIL of MIDF above 10% in the past? Please provide a five-year trend of MIDF's NIL to enable MBSB's shareholders to better gauge the asset quality of MIDF.

ANSWER:

Please refer to the table below

<u>Financial Year</u>	<u>NIL Ratio</u>
FY2022	11.50%
FY2021	11.13%
FY2020	10.25%
FY2019	22.49%
FY2018	31.42%
FY2017	41.99%

QUESTION 3 (Cont'd)

3(c) MIDF's impaired loans, advances and financing (LAF) amounting to RM49 million was extended to mining and quarrying customers during the year. These LAFs were categorised as exposures to COVID-19-impacted sectors. (page 146, Note 11 (b)(ii) – Loans, advances and financing, Appendix II, Circular dated 12 July 2023).

What resulted in the impairment upon the expiry of COVID-19 loan assistance measures? Are the impaired LAFs recoverable or reversible?

ANSWER:

The RM49 million is attributed to a single account. During the COVID lockdown, the bank provided temporary Repayment Assistance to the customer in line with the government's call.

Upon expiration of the repayment assistance, the customer was still unable to pay, hence the loan becoming impaired.

Recovery efforts are in progress, and we hope to resolve it soon.

PRE-EGM QUERIES FROM SHAREHOLDERS

QUESTION 1

- 1 What would be the actions that will be taken to increase the share price of MBSB post-merger, and what will be the dividend payout ratio policy will be undertaken by MBSB?

ANSWER:

Our share price is expected to improve as our financial performance improves, subject to market forces and sentiments.

MBSB has in place a dividend policy to pay a minimum 30% dividend on profit after tax.

QUESTION 2

2. Adakah perancangan bagi meningkatkan kecekapan Operasi MBSB. Semasa saya berurusan untuk dapatkan penyata menunggu masa lama dan cetakan menggunakan printer lama.

Mohon MBSB menaiktaraf perkhidmatan dengan secara Online dimana pelanggan yang ada akaun boleh menggunakan talian online untuk lihat dan download PDF untuk rekod. Online akses tanpa perlu penggunaan kad debit. Contoh : Public Bank boleh akses akaun online walaupun akaun tanpa kad debit atau kad kredit.

ANSWER:

MBSB Bank telah memperkenalkan penyata dalam talian (e-statement) melalui perbankan internet dan aplikasi mudah-alih M Journey. Pelanggan boleh menyemak dan memuat-turun penyata akaun sama ada secara bulanan bagi akaun semasa atau setiap tiga bulan bagi akaun simpanan. Pelanggan boleh melayari laman web MBSB Bank di www.mbsbbank.com atau memuat turun aplikasi M Journey di Apple Store dan juga Google Play.

Pendaftaran untuk akses perbankan internet dan aplikasi mudah-alih M Journey tidak memerlukan kad debit. Pelanggan boleh mendaftar penggunaan perbankan internet dan aplikasi mudah-alih dengan hanya menggunakan nombor akaun semasa atau simpanan. Akses transaksi lain seperti pindahan wang memerlukan pelanggan mendaftar aplikasi mudah-alih M Journey untuk meluluskan transaksi.

QUESTION 3

3. Is the company giving any door gift to shareholders attending this EGM

ANSWER:

The company has a no-gift policy. We believe in rewarding all shareholders equally and meaningfully. To achieve this, available funds will be channeled back to shareholders in terms of dividends.