

**MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)**  
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 MARCH 2015

**A1. Basis of Preparation**

The unaudited condensed interim financial statements for the financial quarter ended 31 March 2015 have been prepared under the historical cost convention except for the following financial assets and financial liabilities which are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest/profit method: Loans and financing, trade and other payables, bank borrowings and recourse obligations on financing/loans sold.

The unaudited condensed interim financial statements have been prepared in accordance with MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and Chapter 9, Part K of the Listing Requirements of Bursa Malaysia Securities Berhad.

The unaudited interim financial statements should be read in conjunction with the audited annual financial statements of the Group for the financial year ended 31 December 2014. The explanatory notes attached to the condensed interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year 2014.

The unaudited interim financial statements incorporated those activities relating to the Islamic banking business which have been undertaken by the Group. Islamic banking business refers generally to the acceptance of deposits and granting of financing under the principles of Shariah.

The significant accounting policies and methods of computation applied in the unaudited interim financial statements are consistent with those adopted in the most recent annual financial statements for the year ended 31 December 2014.

The following MFRSs and Amendments to MFRSs have been issued by the MASB but are not yet effective to the Group:

Effective for annual periods commencing on or after 1 January 2016

- Equity Method in Separate Financial Statements (Amendments to MFRS 127)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)
- Amendments to MFRSs contained in the document entitled “Annual Improvements to MFRSs 2012-2014 Cycle”
- Disclosure Initiative (Amendments to MFRS 101)
- Investment Entities: Applying the Consolidation Exception (Amendments to MFRS 10, MFRS 12 and MFRS 128)

Effective for annual periods commencing on or after 1 January 2017

- MFRS 15 Revenue from Contracts with Customers

Effective for annual periods commencing on or after 1 January 2018

- MFRS 9 Financial Instruments (2014)

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**A1. Basis of Preparation (continued)**

The directors expect that the new MFRSs and Amendments to MFRSs which have been issued by the MASB but are not yet effective to the Group do not have any material impact on the financial statements of the Group. The financial effects of the above MFRSs are still being assessed due to the complexity of these new MFRSs and Amendments to MFRSs, and their proposed changes.

The preparation of the unaudited condensed interim financial statements in conformity with the MFRS requires the use of certain critical accounting estimates and assumptions that effect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the unaudited condensed interim financial statements, and the reported amounts of income and expenses during the reported period. It also requires directors to exercise their judgement in the process of applying the Group's accounting policies. Although these estimates and assumptions are based on the directors' best knowledge of current events and actions, actual results may differ from those estimates.

**A2. Audit Report of Preceding Financial Year Ended 31 December 2014**

The audit report on the financial statements of the preceding year was not qualified.

**A3. Seasonality and Cyclicity of Operation**

The Group's operations have not been affected by any seasonal or cyclical factors.

**A4. Exceptional or Unusual Items**

There were no items of exceptional or unusual nature that affect the assets, liabilities, equity, net income or cash flows of the Group in the current financial quarter.

**A5. Changes in Estimates of Amounts Reported Previously**

There were no changes in estimates of amounts reported in prior financial years that may have a material effect in the current quarter.

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**A6. Debts and Equity Securities**

Other than the issuance of new shares as shown below pursuant to the Company's Employee Share Option Scheme ("ESOS") and warrants, there were no issuance and repayment of debt and equity securities, share buy backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current financial quarter.

	<b>No of ordinary shares of RM1.00 each '000</b>	<b>Ordinary shares RM'000</b>	<b>Share premium RM'000</b>
<b>At 1 January 2015</b>	2,709,623	2,709,623	1,278,872
Issued at RM1.01 per share pursuant to ESOS	341	341	4
Issued at RM1.44 per share pursuant to ESOS	1,190	1,190	523
Issued at RM2.01 per share pursuant to ESOS	364	364	368
Issued at RM2.15 per share pursuant to ESOS	35	35	40
Issued at RM1.00 per share pursuant to warrants	1,697	1,697	-
Transfer from share option reserve	-	-	1,060
<b>As at 31 March 2015</b>	<u>2,713,249</u>	<u>2,713,249</u>	<u>1,280,868</u>

**A7. Dividend Paid**

None.

**A8. Loans, Advances and Financing****(i) By type**

	<b>31-03-15 RM'000</b>	<b>31-12-14 RM'000</b>
Personal financing	23,356,574	23,395,418
Mortgage loans and financing	5,328,158	5,279,788
Corporate loans and financing	3,934,557	3,677,660
Auto Financing	300,604	280,344
Staff loans	47,393	45,364
Gross loans, advances and financing	<u>32,967,286</u>	<u>32,678,574</u>
Allowance for impairment:		
- Collectively assessed	(1,531,437)	(1,437,747)
- Individually assessed	(215,928)	(208,679)
Net loans, advances and financing	<u>31,219,921</u>	<u>31,032,148</u>

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**A8. Loans, Advances and Financing (continued)****(ii) By maturity structure**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
Maturing within one year	1,728,522	1,691,198
One year to three years	546,310	592,130
Three years to five years	893,487	769,799
Over five years	29,798,967	29,625,447
	<u>32,967,286</u>	<u>32,678,574</u>

**(iii) By economic purpose**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
Purchase of residential properties	5,064,890	5,011,516
Purchase of non-residential properties	288,591	291,085
Personal use	23,377,120	23,416,107
Property development	2,227,802	2,070,967
Working capital	892,698	817,857
Purchase of transport vehicles	302,129	282,202
Others	814,056	788,840
	<u>32,967,286</u>	<u>32,678,574</u>

**(iv) By type of customers**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
Domestic business enterprises:		
- Small medium enterprises	1,496,700	1,318,941
- Others	2,562,381	2,474,248
Individuals	28,908,205	28,885,385
	<u>32,967,286</u>	<u>32,678,574</u>

**(v) By interest/profit rate sensitivity**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
Fixed rate:		
Personal financing	23,358,376	23,401,781
Auto finance	302,129	282,202
Mortgage and property islamic	919,759	937,824
Bridging, structured and term loans and financing	543,912	540,241
Variable rate:		
Cost of fund plus	7,843,110	7,516,526
	<u>32,967,286</u>	<u>32,678,574</u>

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**A8. Loans, Advances and Financing (continued)**

**(vi) Movements in impaired loans, advances and financing**

	31-03-15 RM'000	31-12-14 RM'000
Balance as at 1 January	2,145,793	1,648,383
Increase in balance due to change from 6 months to 3 months classification for impaired loans/financing	-	873,487
	<u>2,145,793</u>	<u>2,521,870</u>
Classified as impaired during the period	655,529	2,606,390
Reclassified as non-impaired	(570,143)	(2,744,898)
Amount recovered	(3,091)	(168,422)
Amount written off	(929)	(69,147)
Balance as at end of period	<u>2,227,159</u>	<u>2,145,793</u>
Collective allowance	(927,477)	(839,425)
Individual allowance	(55,853)	(48,774)
	<u>(983,330)</u>	<u>(888,199)</u>
Net impaired loans, advances and financing	<u>1,243,829</u>	<u>1,257,594</u>
Net impaired loans as per percentage of net loans, advances and financing	<u>4.0%</u>	<u>4.1%</u>

**(vii) Movements in the allowance for impaired loans, advances and financing**

	31-03-15 RM'000	31-12-14 RM'000
<b>Collective Impairment</b>		
Opening balance	1,437,747	1,318,453
Impairment during the year	93,690	119,294
Closing balance	<u>1,531,437</u>	<u>1,437,747</u>
As of % of gross loans, advances and financing less individual allowance	4.7%	4.4%
<b>Individual Impairment</b>		
Opening balance	208,679	300,865
(Write back of impairment)/ impairment during the period	7,498	7,824
Written off	(249)	(94,032)
Transfer to subsidiaries	-	(5,978)
Closing balance	<u>215,928</u>	<u>208,679</u>

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**A9. Deposits from customers**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>By type of products:</b>		
Savings	100,462	117,323
Fixed deposits	27,362,719	27,413,535
	<u>27,463,181</u>	<u>27,530,858</u>
<b>By type of customers:</b>		
Government and statutory bodies	18,956,690	19,318,499
Business enterprises	6,344,880	5,906,404
Individuals	2,161,611	2,305,955
	<u>27,463,181</u>	<u>27,530,858</u>
<b>Maturity of deposits from customers:</b>		
Within one year	20,992,269	25,159,654
More than one year	6,470,912	2,371,204
	<u>27,463,181</u>	<u>27,530,858</u>

**A10. Interest Income**

	<b>1st quarter ended</b>		<b>3 months ended</b>	
	<b>31 March</b>		<b>31 March</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Loans, advances and financing	109,105	122,131	109,105	122,131
Deposits and placements with banks and other financial institutions	10,178	14,745	10,178	14,745
	<u>119,283</u>	<u>136,876</u>	<u>119,283</u>	<u>136,876</u>

**A11. Interest Expenses**

	<b>1st quarter ended</b>		<b>3 months ended</b>	
	<b>31 March</b>		<b>31 March</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Bank borrowings	4,623	6,861	4,623	6,861
Deposits from customers	65,041	61,590	65,041	61,590
Loans/financing sold	-	26,537	-	26,537
	<u>69,664</u>	<u>94,988</u>	<u>69,664</u>	<u>94,988</u>

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**A12. Net Income from Islamic Banking Operations**

	1st quarter ended 31 March		3 months ended 31 March	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Financing	477,797	477,535	477,797	477,535
Sukuk Commodity Murabahah	36,872	16,412	36,872	16,412
Deposits placements	29,735	19,080	29,735	19,080
Less: Income attributable to depositors	(269,373)	(213,375)	(269,373)	(213,375)
	<u>275,031</u>	<u>299,652</u>	<u>275,031</u>	<u>299,652</u>

**A13. Other Income**

	1st quarter ended 31 March		3 months ended 31 March	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Rental income	-	231	-	231
Revenue from hotel operations	1,637	2,099	1,637	2,099
Loan agency fees	-	2	-	2
Loan processing fees	10,981	13,364	10,981	13,364
Insurance commission	798	856	798	856
Legal notice fees	421	735	421	735
Sundry income	4,600	1,601	4,600	1,601
	<u>18,437</u>	<u>18,888</u>	<u>18,437</u>	<u>18,888</u>

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**A14. Other Operating Expenses**

	1st quarter ended 31 March		3 months ended 31 March	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Personnel expenses:				
- Wages and salaries	33,768	24,714	33,768	24,714
- Social security costs	219	182	219	182
- Pension costs	5,299	3,792	5,299	3,792
- Share options granted under ESOS	5,001	5,574	5,001	5,574
- Other staff related expenses	1,779	2,928	1,779	2,928
	46,066	37,190	46,066	37,190
Establishment related expenses	2,883	4,055	2,883	4,055
Promotion and marketing related expenses	4,761	5,890	4,761	5,890
General administrative expenses	22,791	17,355	22,791	17,355
Others	7,615	13,785	7,615	13,785
	<u>84,116</u>	<u>78,275</u>	<u>84,116</u>	<u>78,275</u>

**A15. Allowance for Impairment Losses on Loans, Advances and Financing**

	1st quarter ended 31 March		3 months ended 31 March	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Allowance for/(write back of) impairment on loans, advances and financing:				
- Collective impairment	93,694	21,686	93,694	21,686
- Individual impairment	7,498	(8,035)	7,498	(8,035)
- Written off	127	1,538	127	1,538
	<u>101,319</u>	<u>15,189</u>	<u>101,319</u>	<u>15,189</u>



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**A16. Commitments and Contingencies**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(i) Operational Commitments</b>		
Loan commitments not yet recognised in the financial statements:		
End finance	290,965	314,516
Islamic properties	76,347	63,221
Islamic personal financing	2,520	2,493
Islamic auto financing	1,086	-
Auto finance	773	-
Bridging, structured and term loans and financing	5,776,081	7,251,844
Financial guarantees	82,497	85,110
	<u>6,230,269</u>	<u>7,717,184</u>
Approved and contracted for property development	<u>421,528</u>	<u>421,528</u>
Total	<u>6,651,797</u>	<u>8,138,712</u>
<b>(ii) Capital Commitments</b>		
Property, plant and equipment:		
Approved and contracted for	192,118	196,822
Approved but not contracted for	62,332	-
	<u>254,450</u>	<u>196,822</u>

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 borrowers.

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**A17. 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.

The tentative Hearing date on 16 April 2015 has been vacated and matter is fixed for further Case Management on 11 August 2015.

- (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.

Court of Appeal fixed the matter for Case Management on 26 May 2015 pending release of the grounds of judgment from the High Court.

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.

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**A18. Segmental Information on Revenue and Results**

The Group's activities are based in Malaysia, therefore segmental reporting is not analysed by geographical locations.

	<b>Financing</b>	<b>Hotel</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>RM'000</b>	<b>Operations</b>	<b>RM'000</b>	<b>RM'000</b>
		<b>RM 000</b>		
<b>3 months ended 31 March 15</b>				
External sales	686,074	1,637	2,891	690,602
Intersegment sales	9,659	824	(10,483)	-
Total revenue	<u>695,733</u>	<u>2,461</u>	<u>(7,592)</u>	<u>690,602</u>
Segment results	146,229	(3,679)	15,102	157,652
Unallocated income (net of cost)				-
Profit from operations				<u>157,652</u>
<b>3 months ended 31 March 14</b>				
External sales	655,690	2,099	9,321	667,110
Intersegment sales	12,081	850	(12,931)	-
Total revenue	<u>667,771</u>	<u>2,949</u>	<u>(3,610)</u>	<u>667,110</u>
Segment result	256,268	(2,337)	13,033	266,964
Unallocated income (net of cost)				-
Profit from operations				<u>266,964</u>

**A19. Valuation of Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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**A20. Subsequent Events**

None.

**A21. Changes in the Composition of the Group**

There were no major changes in the composition of the Group for the current quarter.

**A22. Acquisition/Disposal of Property, Plant and Equipment**

	<b>As at 31-03-15 RM'000</b>
Additions	
Building in progress	4,703
Building renovation	(71)
Furniture & equipment	269
	<u>4,901</u>

**A23. Significant Related Party Transactions**

	<b>1st quarter ended 31 March</b>		<b>3 months ended 31 March</b>	
	<b>2015 RM'000</b>	<b>2014 RM'000</b>	<b>2015 RM'000</b>	<b>2014 RM'000</b>
Transactions with Employees Provident Fund Board, the ultimate holding body:				
Funding cost on securitised financing	1,953	3,438	1,953	3,438
Rental paid	70	66	70	66
	<u>70</u>	<u>66</u>	<u>70</u>	<u>66</u>

**A24. Impairment Loss**

There were no other impairment losses other than those disclosed in note A8 above.

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**A25. Operations of Islamic Banking****A25a. Unaudited Consolidated Statements of Financial Position as at 31 March 2015**

	Note	31-Mar-15 RM'000	31-Dec-14 RM'000
<b>Assets</b>			
Cash and short-term funds		3,542,564	4,447,110
Deposits and placements with financial institutions		173,885	83,142
Financing	A25c	26,229,342	25,962,554
Other receivables		1,027,454	776,974
Sukuk Commodity Murabahah		-	-
<b>Total assets</b>		<u>30,973,245</u>	<u>31,269,780</u>
<b>Liabilities</b>			
Deposits from customers	A25d	20,493,082	21,054,086
Other payables		4,759,433	4,328,524
Bank borrowings		500,200	600,510
Other borrowings		125,434	150,544
Financing sold to Cagamas Berhad		1,466,703	1,477,120
Sukuk - MBSB SC Murabahah		1,162,832	1,150,124
Provision for taxation		43,892	201,552
Provision for zakat		5,438	5,712
<b>Total liabilities</b>		<u>28,557,014</u>	<u>28,968,172</u>
Islamic fund		4,000	4,000
Retained profits		2,412,231	2,297,608
		<u>2,416,231</u>	<u>2,301,608</u>
<b>Total liabilities and Islamic fund</b>		<u>30,973,245</u>	<u>31,269,780</u>

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**A25b. Unaudited Consolidated Statements of Comprehensive Income for the Year Ended 31 March 2015**

	1st quarter ended		3 months ended	
	31 March		31 March	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of general investment deposits and Islamic capital funds	557,050	513,027	557,050	513,027
Income attributable to depositors	(282,019)	(213,375)	(282,019)	(213,375)
Net income from financing operations	275,031	299,652	275,031	299,652
Other income	15,059	16,459	15,059	16,459
Other expenses	(53,996)	(49,774)	(53,996)	(49,774)
Allowance for losses on financing	(77,529)	(7,407)	(77,529)	(7,407)
Profit before taxation and zakat	158,565	258,930	158,565	258,930
Taxation	(43,942)	(63,898)	(43,942)	(63,898)
Zakat	-	-	-	-
Profit after taxation and zakat	114,623	195,033	114,623	195,033
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	114,623	195,033	114,623	195,033

**A25c. Financing**

**(i) By type**

	31-03-15	31-12-14
	RM'000	RM'000
Term financing:		
Corporate financing	4,066,257	2,204,727
Property financing	4,354,252	4,244,196
Personal financing	38,767,553	39,240,740
Auto financing	173,596	139,741
Staff financing	19,194	20,324
Less: Unearned income	(20,330,266)	(19,143,455)
Gross loans, advances and financing	27,050,586	26,706,273
Allowance for impairment:		
- Collectively assessed	(821,244)	(743,719)
- Individually assessed	-	-
Net financing	26,229,342	25,962,554

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**A25c. Financing (continued)****(ii) By contract**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
Bai Bithaman Ajil (deferred payment sale)	1,721,182	1,464,680
Bai Al-Inah (cost plus)	14,286,505	13,997,702
Tawarruq	9,232,322	9,055,975
Contract financing	<u>1,810,577</u>	<u>1,444,197</u>
	<u>27,050,586</u>	<u>25,962,554</u>

**(iii) Impaired financing**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
Balance as at 1 January	1,158,286	616,734
Increase in balance due to change from 6 months to 3 months classification for impaired financing	<u>-</u>	<u>387,120</u>
	1,158,286	1,003,854
Classified as impaired during the year	306,616	1,291,355
Reclassified as non-impaired during the year	(302,812)	(1,136,111)
Amount written off	<u>-</u>	<u>(812)</u>
Balance as at 31 December	1,162,090	1,158,286
Individual/Collective allowance	<u>(465,488)</u>	<u>(218,325)</u>
Net financing	<u>696,602</u>	<u>939,961</u>
Net impaired financing as a percentage of net financing	<u>2.7%</u>	<u>2.9%</u>

**(iv) Movement in allowance for impairment are as follows:**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Collective impairment</b>		
Balance as at 1 January	743,719	672,230
Impairment during the year	77,525	71,428
Reclassification	<u>-</u>	<u>61</u>
Balance as at 31 December	<u>821,244</u>	<u>743,719</u>
<b>Individual impairment</b>		
Balance as at 1 January	-	246
Impairment during the year	<u>-</u>	<u>(246)</u>
Balance as at 31 December	<u>-</u>	<u>-</u>

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**A25d. Deposits from Customers****(i) By type of deposits**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
Al-Wadiah savings account	39,889	39,173
Mudharabah fund	20,453,193	21,014,913
	<u>20,493,082</u>	<u>21,054,086</u>

**(ii) By type of customer**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
Business enterprises	20,416,432	20,974,357
Individuals	76,650	79,729
	<u>20,493,082</u>	<u>21,054,086</u>

**(iii) By maturity of deposits from customers**

	<b>31-03-15</b>	<b>31-12-14</b>
	<b>RM'000</b>	<b>RM'000</b>
Within one year	15,311,236	19,972,862
More than one year	5,181,846	1,081,224
	<u>20,493,082</u>	<u>21,054,086</u>



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**BMSB LISTING REQUIREMENTS – DISCLOSURE REQUIREMENTS AS PART A OF APPENDIX 9B**

**B1. Performance Review**

**Current Period-to-Date vs Previous Year Corresponding Period-to-Date**

The Group profit before tax for the financial period ended 31 March 2015 of RM157.652 million decreased by RM109.313 million or 41% as compared to the previous year corresponding period profit before taxation of RM266.965 million. The decrease was mainly due to higher allowances for impairment losses on loans, advances and financing and lower operating income on the back of higher revenue growth. The higher allowances for impairment losses are in line with the Group's ongoing impairment programme under its strategy to align its policies with industry best practices and banking standards.

The performance of the respective operating business segments for the current period under review as compared to the previous year corresponding period is analysed as follows:

Personal financing – The gross income from personal financing in the current period was lower compared to the previous year corresponding period due to lower disbursements.

Corporate loans and financing – The gross income from corporate loans and financing in the current period was higher compared to the previous year corresponding period due to the increasing growth of corporate loans and financing assets bases.

Mortgage loans and financing – The gross income from mortgage loans and financing was relatively consistent with the previous year corresponding period.

Auto finance loans and financing – The gross income from auto finance loans and financing was higher mainly due to increasing growth of loans and financing bases.

**B2. Variation of Results against Preceding Quarter**

The Group profit before tax for the 1<sup>st</sup> quarter 2015 of RM157.652 million increased by RM70.370 million or 81% as compared to the preceding quarter profit before tax of RM87.282 million. The increase was mainly as a result of higher operating income.

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**B3. Prospects**

***Brief Overview and Outlook of the Malaysian Economy***

The Malaysian economy expanded at a faster pace in the fourth quarter of 2014 (5.8%; 3Q 2014: 5.6%). Growth was driven by stronger private sector expenditure (8.5%; 3Q 2014: 6.8%), and a turnaround in public sector spending (0.6%; 3Q 2014: -1.2%). Meanwhile, real exports of goods and services registered a more moderate growth of 1.5% (3Q 2014: 2.8%). This moderation, coupled with higher growth in imports, led to a negative contribution of net exports to overall growth. On a quarter-on-quarter seasonally-adjusted basis, growth momentum increased to 2.0% (3Q 2014: 0.9%).

Domestic demand growth increased to 5.9% in the fourth quarter (3Q 2014: 4.9%), driven by the improvement in private sector expenditure and a turnaround in public sector spending.

Federal Government spending remained supportive of growth in the fourth quarter, with total net expenditure amounting to RM76.1 billion. In particular, operating expenditure increased due to higher grants and transfer to statutory bodies, and supplies and services. Development expenditure was disbursed mainly to the rural and community development and other economic services sectors. Despite the decline in oil prices, revenue was sustained at RM59.6 billion supported by higher collection from income tax. For the year as a whole, Federal Government achieved the fiscal deficit target of 3.5% of GDP (2013: 3.9% of GDP). As at end-December 2014, total outstanding debt of the Federal Government stood at RM582.8 billion or 54.5% of GDP.

*(Source: Extracted from BNM, Quarterly Bulletin, Developments in the Malaysian Economy, Fourth Quarter 2014)*

***Sound Banking System***

The banking system remained strong and well-capitalised in the fourth quarter of 2014. The common equity tier 1 (CET1) capital ratio and tier 1 capital ratio held steady at 12.6% and 13.3%, respectively as at end-December 2014 (end-September 2014: 12.8%; 13.5%). However, the total capital ratio fell marginally to 15.2% (end-September 2014: 15.5%), still well above the minimum regulatory level. The banking sector recorded a pre-tax profit of RM7.8 billion (Q3 2014: RM8.1 billion). The quality of banking loan portfolio was maintained with the net impaired loans ratio improving to 1.2% of net total loans as at end December 2014 (end-September 2014: 1.3%).

*(Source: Extracted from the Quarterly Update on the Malaysian Economy – Third Quarter 2014, Ministry of Finance)*

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**B3. Prospects (continued)**

In the fourth quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM309.8 billion (3Q 2014: RM302.1 billion). On a net basis, outstanding banking system loans and PDS expanded by 8.8% as at end December (end-September 2014: 8.9%).

Net lending to businesses by the banking system expanded by RM17.7 billion during the quarter (3Q 2014: RM5.3 billion) with the majority of the increase in disbursements channelled to finance working capital in the wholesale and retail trade, and restaurants and hotels; construction; manufacturing and finance, insurance and business services sectors. On an annual basis, outstanding business loans increased at a higher rate of 9.4% as at end December (end-September 2014: 7.9%). In particular, the growth rate of outstanding loans to SMEs remained healthy, increasing further to 13.4% as at end-December (end-September 2014: 12.5%). Overall business loan applications and approvals were relatively stable during the quarter.

Net financing to the household sector expanded by RM17.9 billion during the quarter (3Q 2014: RM16.5 billion). On an annual basis, outstanding household loans growth moderated further to 9.9% as at end-December (end-September 2014: 10.7%).

*(Source: Extracted from BNM, Quarterly Bulletin, Monetary and Financial Developments in the Malaysian Economy, Fourth Quarter 2014)*

***Group Prospects***

The Group's focus on expansion of corporate business segment continued to show positive contribution, notably growth in corporate financing/loans assets and earnings whilst the retail segment businesses have been moderate. The operating environment remains challenging and to meet these challenges, the Group will continue to strengthen, adapt and sustain its corporate and retail business activities. These activities include strategies for continued improvement in compliant operational workflows, enhancing assets quality based on risk management framework and funding from capital markets.

Barring any unforeseen circumstances, the Group expects a satisfactory performance in 2015.

**B4. Variance from Profit Forecast and Profit Guarantee**

None.

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**B5. Taxation**

	<b>1st quarter ended 31 March</b>		<b>3 months ended 31 March</b>	
	<b>2015 RM'000</b>	<b>2014 RM'000</b>	<b>2015 RM'000</b>	<b>2014 RM'000</b>
Current income tax:				
Malaysian income tax	49,889	79,031	49,889	79,031
Tax refund	-	-	-	-
Over provision in prior years:				
Malaysian income tax	-	(8,783)	-	(8,783)
	<u>49,889</u>	<u>70,248</u>	<u>49,889</u>	<u>70,248</u>
Deferred tax:				
Relating to origination and reversal of temporary differences	(16,549)	(18)	(16,549)	(18)
	<u>(16,549)</u>	<u>(18)</u>	<u>(16,549)</u>	<u>(18)</u>
Total income tax expense	<u>33,340</u>	<u>70,230</u>	<u>33,340</u>	<u>70,230</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2014: 25%) of the estimated assessable profit for the quarter. The higher effective tax rate for the current quarter was mainly due to adjustments made for non-allowable items.

**B6. Profit/(Loss) on Sale of Unquoted Investments and/or Properties**

There were no significant sales of unquoted investments or properties during the current quarter.

**B7. Purchase and Sale of Quoted Securities**

There were no dealings in quoted securities for the current quarter.

**B8. Status of Corporate Proposals**

None.

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**B9. Borrowings and Debts**

Borrowings of the Group as at 31 December 2014 were as follows:

	<b>As at 31-03-15 RM'000</b>	<b>As at 31-12-14 RM'000</b>
Short term bank borrowings	850,552	1,415,844
Islamic financing facility (secured)	<u>125,434</u>	<u>150,544</u>
	<u>975,986</u>	<u>1,566,388</u>
Maturity of borrowings:		
- One year or less	950,986	1,516,388
- More than one year	<u>25,000</u>	<u>50,000</u>
Total	<u>975,986</u>	<u>1,566,388</u>
Recourse obligation on loans sold to Cagamas Berhad (secured):		
- One year or less	130,572	101,888
- More than one year	<u>2,722,660</u>	<u>2,271,151</u>
Total	<u>2,853,232</u>	<u>2,373,039</u>

All borrowings are denominated in Ringgit Malaysia.

**B10. Off Balance Sheet Financial Instruments**

None.

**B11. Realised and Unrealised Profits and Losses**

The breakdown of accumulated losses of the Group as at the reporting date, into realised and unrealised losses, as disclosed pursuant to the directive issued by Bursa Malaysia Securities Berhad ("Bursa Malaysia") on 25 March 2010, is as follows:

	<b>Cumulative</b>	
	<b>As at 31-03-15 RM'000</b>	<b>As at 31-12-14 RM'000</b>
Total accumulated losses of the Group:		
- Realised	(180,720)	(279,815)
- Unrealised in respect of deferred tax recognised in the income statement	364,335	354,149
Total Group accumulated losses as per consolidated accounts	<u>183,615</u>	<u>74,334</u>
Add: Consolidated adjustments	<u>597,893</u>	<u>582,773</u>
	<u>781,508</u>	<u>657,107</u>

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.

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**B12. Material Litigation**

The details of the pending material litigation are as per note A17 above.

**B13A. Dividends Proposed**

None.

**B13B. 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. DRP is part of the Company’s capital management plan in retaining capital for future expansion of the business.

It should be noted that the Company is not obliged to undertake the DRP and provide the option to reinvest for every dividend declared.

On 15 April 2015, Malaysia Building Society Berhad (“MBSB” or “the Company”) has obtained the approval of its shareholders to allot and issue such number of the new ordinary shares in MBSB pursuant to the DRP until the conclusion of the next Annual General Meeting.

The Board had determined that the option to reinvest via the DRP shall apply to the entire portion of the Single-Tier Final Dividend of 10.0 sen and Single-Tier Special Dividend of 2.0 sen per MBSB Share for the financial year ended 31 December 2014. The dividends were approved by the shareholders of the Company on 15 April 2015. The DRP Statement and Notice of Election were issued to the shareholders of the Company on 5 May 2015.

**B15. Earnings Per Share****Basic**

Basic earnings per share is calculated by dividing the net profit attributable to shareholders for the financial period by the weighted average number of ordinary shares in issue during the financial period.

	<b>1st quarter ended</b>		<b>3 months ended</b>	
	<b>31 March</b>		<b>31 March</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net profit attributable to shareholders for the period (RM'000)	124,312	196,734	124,312	196,734
Weighted average number of ordinary shares in issue ('000)	2,711,078	2,350,084	2,711,078	2,350,084
Basic earnings per share (sen)	<u>4.59</u>	<u>8.37</u>	<u>4.59</u>	<u>8.37</u>

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**Diluted**

For the purpose of calculating diluted earnings per share, the net profit for the period and the weighted average number of ordinary shares in issue during the financial period have been adjusted for the dilutive effects of all potential ordinary shares, i.e. Employee Share Option Scheme (“ESOS”) and Warrants.

	1st quarter ended		3 months ended	
	31 March		31 March	
	2015	2014	2015	2014
Net profit attributable to shareholders for the period (RM'000)	124,312	196,734	124,312	196,734
Weighted average number of ordinary shares in issue ('000)	2,711,078	2,350,084	2,711,078	2,350,084
Weighted average effect of dilution on ESOS ('000)	1,771	2,954	1,771	2,954
Weighted average effect of dilution on Warrants ('000)	8,787	8,592	8,787	8,592
Adjusted weighted average number of ordinary shares in issue ('000)	<u>2,721,636</u>	<u>2,361,630</u>	<u>2,721,636</u>	<u>2,361,630</u>
Diluted earnings per share (sen)	<u>4.57</u>	<u>8.33</u>	<u>4.57</u>	<u>8.33</u>

**B15. Authorisation For Issue**

The unaudited interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 7 May 2015.

BY ORDER OF THE BOARD

Koh Ai Hoon  
Tong Lee Mee  
Joint Company Secretaries  
Kuala Lumpur  
7 May 2015