

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2014

A1. Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 30 September 2014 have been prepared under the historical cost convention except for the following financial assets and financing liabilities which are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method: Loans and receivables, investments held-to-maturity, trade and other payables, bank borrowings and recourse obligations on loans sold to Cagamas Berhad.

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 2013. 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 2013.

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 Group has adopted the Malaysian Financial Reporting Standards (“MFRS”) framework issued by the Malaysian Accounting Standards Board (“MASB”) with effect from 1 January 2012. This MFRS framework was introduced by the MASB in order to fully converge Malaysia’s existing Financial Reporting Standards (“FRS”) framework with the International Financial Reporting Standards (“IFRS”) framework issued by the International Accounting Standards Board (“IASB”). Whilst all FRSs issued under the previous FRS framework were equivalent to the MFRSs issued under the MFRS framework, there are some differences in relation to the transitional provisions and effective dates contained in certain of the FRSs.

The following MFRSs and IC Interpretations issued by the MASB have been adopted by the Group during the current period:

Effective for annual periods commencing on or after 1 January 2014

- Amendments to Financial instrument: Presentation
MFRS 132
- Amendments to Investment Entities
MFRS 10, MFRS
12 and MFRS
127

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A1. Basis of Preparation (continued)

The following MFRSs and IC Interpretations have been issued by the MASB and are not yet effective:

Effective for annual periods commencing on or after 1 January 2015

- MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)
- MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)
- Mandatory Effective Date of MFRS 9 and Transition Disclosures (Amendments to MFRS 9 (IFRS 9 issued by IASB in November 2009), MFRS 9 (IFRS 9 issued by IASB in October 2010) and MFRS 7)

The directors expect that the new MFRSs, IC Interpretations and Amendments to MFRSs which are issued and effective for periods beginning on or after 1 January 2013 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 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 2013

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"), Dividend Reinvestment Plan ("DRP"), rights issue 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.

	No of ordinary shares of RM1.00 each '000	Ordinary shares RM'000	Share premium RM'000
At 1 January 2014	1,747,868	1,747,868	631,189
Issued at RM1.01 per share pursuant to ESOS	8,231	8,231	82
Issued at RM1.44 per share pursuant to ESOS	2,529	2,529	1,113
Issued at RM2.01 per share pursuant to ESOS	4,863	4,863	4,912
Issued at RM2.15 per share pursuant to ESOS	1,457	1,457	1,676
Issued at RM2.03 per share pursuant to DRP #	49,327	49,327	50,807
Issued at RM1.65 per share pursuant to rights issue	873,929	873,929	558,562
Issued at RM1.00 per share pursuant to warrants	369	369	-
Transfer from share option reserve	-	-	6,258
As at 30 September 2014	<u>2,688,573</u>	<u>2,688,573</u>	<u>1,254,598</u>

A total of 49,327,347 units of new shares at an amount of RM2.03 per share amounting to RM100,134,514 were subscribed under the DRP as elected by eligible shareholders.

A7. Dividends Paid

The final dividend of 5% in respect of the financial year ended 31 December 2013 on 2,624,813,600 ordinary shares of RM1.00 each totalling RM131,240,680 was paid on 5 June 2014.

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

	30-9-14 RM'000	31-12-13 RM'000
Personal financing	23,466,745	23,387,568
Mortgage loans and financing	5,281,045	5,356,557
Corporate loans and financing	3,554,033	2,924,769
Auto Financing	251,129	206,728
Staff loans	45,043	39,918
Gross loans, advances and financing	<u>32,597,995</u>	<u>31,915,540</u>
Allowance for impairment:		
- Collectively assessed	(1,373,495)	(1,318,453)
- Individually assessed	(223,832)	(300,865)
Net loans, advances and financing	<u>31,000,668</u>	<u>30,296,222</u>

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

	30-9-14	31-12-13
	RM'000	RM'000
Maturing within one year	2,106,297	1,862,220
One year to three years	656,029	662,994
Three years to five years	875,592	877,312
Over five years	28,960,077	28,513,014
	<u>32,597,995</u>	<u>31,915,540</u>

(iii) By economic purpose

	30-9-14	31-12-13
	RM'000	RM'000
Purchase of residential properties	5,010,803	5,078,238
Purchase of non-residential properties	292,350	298,725
Personal use	23,487,803	23,405,091
Property development	1,143,845	2,331,940
Working capital	1,398,288	326,616
Purchase of transport vehicles	253,006	208,716
Others	1,011,900	266,214
	<u>32,597,995</u>	<u>31,915,540</u>

(iv) By type of customers

	30-9-14	31-12-13
	RM'000	RM'000
Domestic non-bank financial institutions	191	151,267
Domestic business enterprises:		
- Small medium enterprises	3,472,181	2,868,796
- Others	242,571	65,559
Individuals	28,883,052	28,829,918
	<u>32,597,995</u>	<u>31,915,540</u>

(v) By interest/profit rate sensitivity

	30-9-14	31-12-13
	RM'000	RM'000
Fixed rate:		
Personal financing	23,478,820	23,404,339
Auto finance	253,006	208,716
Bridging, structured and term loans and financing	330,392	48,215
Variable rate:		
Cost of fund plus	8,535,777	8,254,270
	<u>32,597,995</u>	<u>31,915,540</u>

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A8. Loans, Advances and Financing (continued)**(vi) By geographical distribution**

	30-9-14	31-12-13
	RM'000	RM'000
Malaysia	<u>32,597,995</u>	<u>31,915,540</u>

(vii) Movements in impaired loans, advances and financing

	3 months	6 months
	classification	classification
	30-9-14	31-12-13
	RM'000	RM'000
Balance as at 1 January	1,648,383	3,000,788
Increase in balance due to change from 6 months to 3 months classification for impaired loans/financing	<u>760,632</u>	-
	2,409,015	3,000,788
Classified as impaired during the period	2,049,037	982,861
Reclassified as non-impaired	(2,096,899)	(946,634)
Amount recovered	(63,942)	(47,733)
Bad debt recovered	15,278	-
Amount written off	<u>(65,197)</u>	<u>(1,340,899)</u>
Balance as at end of period	<u>2,247,292</u>	<u>1,648,383</u>
Collective allowance	(709,306)	(467,904)
Individual allowance	<u>(25,413)</u>	<u>(159,610)</u>
	<u>(734,718)</u>	<u>(627,514)</u>
Net impaired loans, advances and financing	<u>1,512,573</u>	<u>1,020,869</u>
Net impaired loans as per percentage of net loans, advances and financing	<u>4.9%</u>	<u>3.4%</u>

The three (3) months non-performing loans/financing classification as at 31 December 2013 stood at 5.4%.

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A8. Loans, Advances and Financing (continued)**(viii) Movements in the allowance for impaired loans, advances and financing**

	30-9-14	31-12-13
	RM'000	RM'000
Collective Impairment		
Balance as at 1 January	1,318,453	1,013,214
Impairment during the year	<u>55,042</u>	<u>305,239</u>
Balance as at 30 September	<u>1,373,495</u>	<u>1,318,453</u>
As of % of gross loans, advances and financing less individual allowance	4.2%	4.2%
 Individual Impairment		
Balance as at 1 January	300,865	1,684,059
(Write back of impairment)/ impairment during the period	(13,353)	(32,173)
Written off	(63,680)	(1,348,651)
Transfer to impairment for foreclosed properties	<u>-</u>	<u>(2,370)</u>
Balance as at 30 September	<u>223,832</u>	<u>300,865</u>

A9. Deposits from customers

	30-9-14	31-12-13
	RM'000	RM'000
By type of products:		
Savings	111,057	108,713
Fixed deposits	<u>28,556,536</u>	<u>28,083,956</u>
	<u>28,667,593</u>	<u>28,192,669</u>
 By type of customers:		
Government and statutory bodies	21,140,085	20,141,023
Business enterprises	5,183,929	5,794,672
Individuals	<u>2,343,579</u>	<u>2,256,974</u>
	<u>28,667,593</u>	<u>28,192,669</u>
 Maturity of deposits from customers:		
Within one year	26,284,686	25,812,374
More than one year	<u>2,382,907</u>	<u>2,380,295</u>
	<u>28,667,593</u>	<u>28,192,669</u>

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A10. Interest Income

	3rd quarter ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Loans, advances and financing	117,616	101,310	350,424	301,365
Interest held-to maturity	-	-	-	100
Deposits and placements with banks and other financial institutions	14,976	6,642	43,745	27,819
	<u>132,592</u>	<u>107,952</u>	<u>394,169</u>	<u>329,284</u>

A11. Interest Expenses

	3rd quarter ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Bank borrowings	3,653	1,548	9,397	4,819
Deposits from customers	66,495	68,498	196,784	206,995
	<u>70,148</u>	<u>70,046</u>	<u>206,181</u>	<u>211,814</u>

A12. Net Income from Islamic Banking Operations

	3rd quarter ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Financing	486,835	503,975	1,440,484	1,410,962
Sukuk Commodity Murabahah	15,705	-	48,162	-
Deposits placements	28,222	11,850	76,528	26,394
Less: Income attributable to depositors	(243,640)	(218,364)	(724,994)	(587,902)
	<u>287,122</u>	<u>297,461</u>	<u>840,180</u>	<u>849,454</u>

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A13. Other Income

	3rd quarter ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Rental income	72	174	375	517
Revenue from hotel operations	2,058	2,307	6,539	6,885
Loan agency fees	1	5	4	13
Loan processing fees	11,671	6,297	36,618	14,708
Insurance commission	953	1,833	10,442	14,798
Loan facility fees	1,499	9,460	2,858	11,729
Legal notice fees	556	346	1,750	557
Sundry income	1,824	2,398	6,253	12,961
Gain from disposal of:				
Foreclosed properties	-	2	-	448
Property, plant and equipment	2	4	2	4
Inventories	-	15,001	-	15,001
Investment properties	166	2,932	166	2,932
	18,802	40,759	65,007	80,553

A14. Other Operating Expenses

	3rd quarter ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Personnel expenses:				
- Wages and salaries	27,100	24,642	70,033	68,827
- Social security costs	208	188	592	542
- Pension costs	4,049	3,914	10,561	11,632
- Share options granted under ESOS	3,889	3,295	10,823	5,520
- Other staff related expenses	3,803	2,013	9,528	5,885
	39,049	34,052	101,537	92,406
Establishment related expenses	2,363	2,755	11,186	10,242
Promotion and marketing related expenses	5,175	3,570	14,216	10,817
General administrative expenses	24,163	17,902	70,062	47,593
Others	4,120	6,946	24,821	20,092
	74,870	65,225	221,822	181,150

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

	3rd quarter ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Allowance for/(write back of) impairment on loans, advances and financing:				
- Collective impairment	28,785	112,506	55,042	219,542
- Individual impairment	(1,150)	880	(13,353)	(35,088)
- Written off	(1,555)	1,280	(15,610)	939
	<u>26,080</u>	<u>114,666</u>	<u>26,079</u>	<u>185,393</u>

A16. Commitments and Contingencies

	30-9-14	31-12-13
	RM'000	RM'000
(i) Operational Commitments		
Loan commitments not yet recognised in the financial statements:		
End finance	299,714	309,763
Islamic properties	52,768	66,611
Islamic personal financing	1,669	-
Bridging, structured and term loans and financing	5,511,557	4,096,150
Financial guarantees	514,100	120,046
	<u>6,379,808</u>	<u>4,592,570</u>
Approved and contracted for property development	421,528	421,528
Total	<u>6,801,336</u>	<u>5,014,098</u>
(ii) Capital Commitments		
Property, plant and equipment:		
Approved and contracted for	239,237	239,237
Approved but not contracted for	-	63,556
	<u>239,237</u>	<u>302,793</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.

The contractor's application to amend the statement of claim was dismissed on 22 June 2010 and the Court fixed 10 November 2011 for case management. The Court of Appeal had on 13 December 2011 allowed the contractor's application to amend statement of claim.

Pre-trial case management was fixed on 21 March 2012 and for full Trial from 26 to 30 March 2012. The matter came up for Decision on 30 April 2012 and the claim against the Company was dismissed with costs. The contractor had then on 29 May 2012 filed an Appeal against the Company in which the Court of Appeal subsequently allowed for the contractor's claim against the Company. The Company's solicitors have subsequently filed a counter Appeal to the Federal Court and the matter is now for Hearing on 3 December 2014.

- (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.

The Company and its subsidiary had filed its defence and counterclaim in response to the suit. The matter came up for Trial from 19 to 21 August 2013 and for Continuation of Trial on 12 October 2013 and 19 October 2013 respectively. Subsequently the Court has fixed for new Trial dates to be set on 28 February 2014 with additional Trial dates on 6, 7 and 10 March 2014. The Court has then fixed the matter for Continuation of Trials on 13 and 14 November 2014.

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. The Court matter came up for Hearing on 13 December 2013 the Plaintiffs' application was allowed. The Company filed an Appeal and a stay application on 17 December 2013. On 8 January 2014 the Court of Appeal granted the stay until disposal of the Appeal. The Appeal came up for Hearing on 16 July 2014 and was subsequently adjourned by the Court of Appeal to 15 October 2014.

On 15 October 2014, the Court of Appeal dismissed the Company's application and subsequently granted ad interim stay for two (2) weeks from the day of the decision for the Company's solicitor to file leave application at Federal Court and stay application in Court of Appeal.

The Court of Appeal has set 5 November 2014 for Hearing of the Company's stay application while the Federal Court has yet to set the date for the Company's leave application.

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.

	Hotel			
	Financing RM'000	Operations RM'000	Eliminations RM'000	Consolidated RM'000
3 months ended 30 September 14				
External sales	657,603	2,058	19,329	678,990
Intersegment sales	23,518	840	(24,358)	-
Total revenue	<u>681,121</u>	<u>2,898</u>	<u>(5,029)</u>	<u>678,990</u>
Segment results	256,013	(3,233)	14,638	267,418
Unallocated income (net of cost)				-
Profit from operations				<u>267,418</u>
3 months ended 30 September 13				
External sales	632,625	2,307	9,101	644,033
Intersegment sales	11,745	705	(12,450)	-
Total revenue	<u>644,370</u>	<u>3,012</u>	<u>(3,349)</u>	<u>644,033</u>
Segment result	187,389	(1,997)	10,843	196,235
Unallocated income (net of cost)				-
Profit from operations				<u>196,235</u>
9 months ended 30 September 14				
External sales	1,948,712	6,539	62,931	2,018,182
Intersegment sales	36,365	2,557	(38,922)	-
Total revenue	<u>1,985,077</u>	<u>9,096</u>	<u>24,009</u>	<u>2,018,182</u>
Segment results	815,526	(7,753)	37,501	845,274
Unallocated income (net of cost)				-
Profit from operations				<u>845,274</u>
9 months ended 30 September 13				
External sales	1,759,581	5,997	49,771	1,815,349
Intersegment sales	30,278	2,965	(33,243)	-
Total revenue	<u>1,789,859</u>	<u>8,962</u>	<u>16,528</u>	<u>1,815,349</u>
Segment result	652,623	(5,820)	34,131	680,934
Unallocated income (net of cost)				-
Profit from operations				<u>680,934</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

	As at 30-9-14 RM'000
Additions	
Building renovation	4,361
Furniture & equipment	3,098
Data processing equipment	762
	<u>8,221</u>

A23. Significant Related Party Transactions

	<u>3rd quarter ended 30 September</u>		<u>Nine months ended 30 September</u>	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Transactions with Employees				
Provident Fund Board, the ultimate holding body:				
Funding cost on securitised financing	2,694	4,125	9,021	13,406
Rental paid	70	72	205	216
	<u>70</u>	<u>72</u>	<u>205</u>	<u>216</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 30 September 2014**

	Note	30-Sep-14 RM'000	31-Dec-13 RM'000
Assets			
Cash and short-term funds		3,335,558	3,143,346
Deposits and placements with financial institutions		90,052	6,686
Financing	A25c	25,662,223	25,012,990
Other receivables		155,842	134,873
Sukuk Commodity Murabahah		-	-
Total assets		<u>29,243,675</u>	<u>28,297,895</u>
Liabilities			
Deposits from customers	A25d	21,543,966	21,084,262
Other payables		3,796,502	3,933,920
Other borrowings		175,607	250,869
Financing sold to Cagamas Berhad		474,451	482,832
Sukuk - MBSB SC Murabahah		497,991	492,696
Provision for taxation		735,349	552,371
Provision for zakat		1,407	3,987
Total liabilities		<u>27,225,273</u>	<u>26,800,937</u>
Islamic fund		4,000	4,000
Retained profits		<u>2,014,402</u>	<u>1,492,958</u>
		<u>2,018,402</u>	<u>1,496,958</u>
Total liabilities and Islamic fund		<u>29,243,675</u>	<u>28,297,895</u>
Commitments and contingencies		<u>3,351,588</u>	<u>757,490</u>

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A25b. Unaudited Consolidated Statements of Comprehensive Income for the Period Ended 30 September 2014

	3rd quarter ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of general investment deposits and Islamic capital funds	530,760	480,797	1,565,172	921,531
Income attributable to depositors	(243,638)	(187,102)	(724,992)	(369,539)
Net income from financing operations	287,122	293,695	840,180	551,992
Other income	21,409	18,444	53,762	32,225
Other expenses	(48,191)	(31,500)	(135,579)	(64,245)
Allowance for losses on financing	(34,006)	(30,908)	(63,327)	(64,668)
Profit before taxation and zakat	226,334	249,731	695,036	455,304
Taxation	(56,583)	(62,432)	(172,977)	(113,826)
Zakat	-	(600)	(615)	(600)
Profit after taxation and zakat	169,751	186,699	521,444	340,878
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	<u>169,751</u>	<u>186,699</u>	<u>521,444</u>	<u>340,878</u>

A25c. Financing

(i) By type

	30-9-14	31-12-13
	RM'000	RM'000
Term financing:		
Corporate financing	1,134,541	504,681
Property financing	4,174,985	4,292,516
Personal financing	39,727,193	40,948,078
Auto financing	124,189	109,299
Staff financing	20,490	17,179
Less: Unearned income	(18,785,409)	(20,186,287)
Gross loans, advances and financing	26,395,989	25,685,466
Allowance for impairment:		
- Collectively assessed	(733,766)	(672,230)
- Individually assessed	-	(246)
Net financing	<u>25,662,223</u>	<u>25,012,990</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2014

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

	30-9-14	31-12-13
	RM'000	RM'000
Bai Bithaman Ajil (deferred payment sale)	1,444,294	1,466,426
Bai Al-Inah (cost plus)	14,174,757	14,481,269
Tawarruq	8,961,803	8,628,769
Contract financing	1,081,369	436,526
	<u>25,662,223</u>	<u>25,012,990</u>

(iii) Impaired financing

	30-9-14	31-12-13
	RM'000	RM'000
Balance as at 1 January	616,734	536,113
Increase in balance due to change from 6 months to 3 months classification for impaired financing	387,120	-
	<u>1,003,854</u>	<u>536,113</u>
Classified as impaired during the year	993,712	500,077
Reclassified as non-impaired during the year	(818,118)	(374,200)
Amount written off	(813)	(45,256)
Balance as at 30 September	<u>1,178,635</u>	<u>616,734</u>
Individual/Collective allowance	<u>(390,524)</u>	<u>(218,325)</u>
Net financing	<u>788,111</u>	<u>398,409</u>
Net impaired financing as a percentage of net financing	<u>3.1%</u>	<u>1.6%</u>

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

	30-9-14	31-12-13
	RM'000	RM'000
Collective impairment		
Balance as at 1 January	672,230	506,344
Impairment during the year	61,474	166,682
Reclassification	62	(796)
Balance as at 30 September	<u>733,766</u>	<u>672,230</u>
Individual impairment		
Balance as at 1 January	246	36,452
Impairment during the year	(246)	246
Reclassification	-	(36,452)
Balance as at 30 September	<u>-</u>	<u>246</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2014

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

	30-9-14	31-12-13
	RM'000	RM'000
Al-Wadiah savings account	31,813	31,085
Mudharabah fund	21,512,153	21,053,177
	<u>21,543,966</u>	<u>21,084,262</u>

(ii) By type of customer

	30-9-14	31-12-13
	RM'000	RM'000
Business enterprises	21,490,891	21,031,691
Individuals	53,075	52,571
	<u>21,543,966</u>	<u>21,084,262</u>

(iii) By maturity of deposits from customers

	30-9-14	31-12-13
	RM'000	RM'000
Within one year	10,645,562	19,864,952
More than one year	10,898,404	1,219,310
	<u>21,543,966</u>	<u>21,084,262</u>

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

B1. Performance Review

a) Current Period-to-date vs Previous Corresponding Period-to-date

The Group profit before tax for the financial period ended 30 September 2014 of RM845.274 million increased by RM164.340 million or 24% as compared to the previous year corresponding period profit before taxation of RM680.934 million. The increase was mainly due to higher operating income from Islamic banking operations and conventional business as well as lower allowances for impairment losses on loans, advances and financing.

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 was higher due to the growth of personal financing assets base.

Corporate loans and financing – The gross income from corporate loans and financing were higher 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.

b) Current Quarter vs Previous Year Corresponding Quarter

The Group profit before tax for the 3rd quarter 2014 of RM267.418 million increased by RM71.183 million or 36% as compared to the previous year corresponding quarter of RM196.235 million. The increase was mainly as a result of higher operating income from Islamic banking operations and conventional business as well as lower impairment losses on loans, advances and financing. These were partly set off by higher operating expenses and lower other operating income.

B2. Variation of Results against Preceding Quarter

The Group profit before tax for the 3rd quarter 2014 of RM267.418 million decreased by RM43.474 million or 14% as compared to the preceding quarter of RM310.892 million. The decrease was mainly as a result of higher impairment losses on loans, advances and financing, higher operating expenses and lower other operating income. These were partly set off by higher operating income from Islamic banking operations and conventional business.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2014

B3. Prospects***Brief Overview and Outlook of the Malaysian Economy***

The Malaysian economy registered a strong growth of 6.4% in the second quarter of 2014 (1Q 2014: 6.2%). Overall, growth was supported by higher exports and continued strength in private domestic demand. Real exports of goods and services grew at a faster pace while growth in real imports of goods and services moderated, resulting in a significant improvement in net exports. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.8% (1Q 2014: 0.8%).

Domestic demand grew by 5.7% in the second quarter of 2014 (1Q 2014: 7.4%). Private sector activity remained the key driver of growth during the quarter amid strong investment and consumption. Public sector spending declined during the quarter, due to lower public investment and consumption.

Federal Government revenue increased in the second quarter by 2.1% on an annual basis, on account of higher collections from direct taxes. The higher revenue was channelled to support operating expenditure, which was driven mainly by emoluments, and grants and transfers to statutory bodies. Development expenditure was higher on an annual basis during the quarter, with a sizeable proportion disbursed to the economic sector. As a result, the Federal Government recorded a fiscal deficit of 2.3% of GDP during the quarter. The deficit continued to be financed by domestic borrowings. As at end of June 2014, total outstanding debt of the Federal Government amounted to RM568.9 billion or 53% of the estimated 2014 GDP.

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

Banking System Remains Strong

During the second quarter of 2014, the banking system remained strong and well capitalised. As at end-June 2014, the common equity tier 1 (CET 1) capital ratio remained at 12.2%, while the tier 1 capital ratio and total capital ratio improved to 13% and 14.8% respectively (end-March 2014: 12.2%; 12.9%; 14.5%). Generally, the capital ratios are well above the minimum regulatory levels. The banking sector recorded a pre-tax profit of RM8.1 billion (Q1 2014: RM8 billion). The quality of loans in the banking system remained stable with the net impaired loans ratio held steady at 1.3% as at end-June 2014 (end-March 2014: 1.3%).

(Source: Extracted from the Quarterly Update on the Malaysian Economy – 2nd Quarter 2014, Ministry of Finance)

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2014

B3. Prospects (continued)

In the second quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM281.0 billion (1Q 2014: RM282.2 billion). On a net basis, outstanding banking system loans and PDS expanded at an annual growth rate of 9.1% as at end-June (end-March 2014: 9.6%).

Net lending to businesses by the banking system expanded by a lower amount of RM8.0 billion during the quarter (1Q 2014: RM11.0 billion). The annual growth of outstanding business loans also moderated to 7.2% during the quarter (end-March 2014: 8.8%) due to the stronger growth in loan repayments relative to disbursements. Nevertheless, the level of loans disbursed to businesses remained healthy during the quarter, with loans disbursed to SMEs being RM1.4 billion more than the previous quarter. Demand for new financing by businesses also increased with higher loan applications recorded across major sectors.

Net financing to the household sector expanded by RM18.6 billion during the quarter (1Q 2014: RM15.9 billion). On an annual basis, outstanding household loans grew by 11.5% as at end-June (end-March 2014: 11.6%).

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

Group Prospects

Since Bank Negara Malaysia's announcement on the measures to further promote a sound and sustainable household sector in July 2013, the growth of the Group's personal financing and mortgage portfolios have been challenging in 2014.

In sustaining the personal finance portfolio, the Group expansion of corporate business segment has shown positive contribution in terms of loans/financing assets and earnings growth. The Group continues to strengthen its corporate and retail businesses, and other new business strategies in anticipation of expected challenges and changes in the operating environment to maintain its competitiveness. To meet these challenges, Group continue to strive to improve operational workflows and assets quality based on risk management and compliance frameworks.

Barring any unforeseen circumstances, the Group expects performance in the final quarter of 2014 to be satisfactory.

B4. Variance from Profit Forecast and Profit Guarantee

None.

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B5. Taxation

	3rd quarter ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Current income tax:				
Malaysian income tax	75,068	62,768	231,643	215,827
Tax refund	-	-	(103)	(25)
Over provision in prior years:				
Malaysian income tax	-	764	(8,783)	567
	<u>75,068</u>	<u>63,532</u>	<u>222,757</u>	<u>216,369</u>
Deferred tax:				
Relating to origination and reversal of temporary differences	(18)	(18)	(55)	(55)
	<u>(18)</u>	<u>(18)</u>	<u>(55)</u>	<u>(55)</u>
Total income tax expense	<u>75,050</u>	<u>63,514</u>	<u>222,702</u>	<u>216,314</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2013: 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.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2014

B8. Status of Corporate Proposals

Corporate Proposal	Status
<p>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”).</p> <p>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.</p> <p>All consideration used to effect the Proposed Merger shall be referenced to the respective closing market price of MBSB, CIMB Group and RHB Capital as at 9 July 2014.</p>	<p>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.</p>
<p>On 9 October 2014, AmInvestment Bank Berhad (“AmInvestment Bank”) had on behalf of the Company announce that the Company has been informed that CIMB Group and RHB Capital, as well as their relevant subsidiaries, had made a joint application to BNM to seek the approval of BNM and/or the Minister of Finance (“MoF”) through BNM for, amongst others, the Proposed Merger, of which MBSB is a party to.</p> <p>The Proposed Merger is intended to encompass the following:</p> <p>(i) The proposed disposal by CIMB Group of all its assets, liabilities, business and undertakings (“Assets and Liabilities”) to RHB Capital (“Proposed Disposal”).</p> <p>CIMB Group shall dispose of all its Assets and Liabilities to RHB Capital in consideration for new shares in RHB Capital (“CIMB Group Consideration Shares”) via a proposed scheme of arrangement under Section 176 of the Companies Act, 1965 (“Act”) between CIMB Group and its shareholders, and RHB Capital, CIMB Islamic Bank, and RHB Islamic and a business sale and purchase agreement entered into between CIMB Group and RHB Capital. In addition, CIMB Group will undertake a capital reduction exercise under Section 64 of the Act to facilitate the distribution of the CIMB Group Consideration Shares to its shareholders, following which CIMB Group shall be delisted from the Main Market of Bursa Malaysia Securities Berhad (“Bursa Securities”).</p> <p>The consideration for the Proposed Disposal (“CIMB Group</p>	<p>The parties will now move towards the due diligence process in view of signing a definitive Sale and Purchase Agreements (“SPA”) in early 2015. Following the SPA, consent of other regulators and shareholders will be sought. The deal is expected to complete in mid-2015.</p>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2014

<p>Merger Consideration”) is RM7.267 per CIMB Group share. This is equivalent to an aggregate CIMB Group Merger Consideration of RM60,581.5 million based on the number of shares in CIMB Group as at 31 July 2014 (8,336.5 million CIMB Group shares). The CIMB Group Merger Consideration represents a premium of 0.4% to the market price of CIMB Group of RM7.24 as at the reference date of 9 July 2014. The CIMB Group Merger Consideration values RHB Capital at RM10.028 per share based on the number of shares in RHB Capital as at 24 July 2014 (2,572.5 million RHB Capital shares). This represents a premium of 15.0% to the market price of RHB Capital of RM8.72 as at the reference date of 9 July 2014.</p> <p>(ii) The proposed acquisition by CIMB Islamic Bank Berhad (“CIMB Islamic”) of the Assets and Liabilities of RHB Islamic Bank Berhad (“RHB Islamic”) (“Proposed RHB Islamic Acquisition”).</p> <p>As an integral part of the Proposed Merger, CIMB Islamic will acquire all the Assets and Liabilities of RHB Islamic in consideration for new ordinary shares in CIMB Islamic (“RHB Islamic Consideration Shares”).</p> <p>The proposed consideration for the Proposed RHB Islamic Acquisition (“RHB Islamic Purchase Consideration”) is RM4,146.8 million. This is equivalent to an implied price per share in RHB Islamic of RM3.53 based on the number of shares of RHB Islamic (1,173.4 million RHB Islamic shares) as at 31 March 2014. The RHB Islamic Purchase Consideration values RHB Islamic at a price-to-book ratio (“PB Ratio”) of 2.00 times the unaudited consolidated net assets (“NA”) to equity holders of RHB Islamic of RM2,073.4 million as at 31 March 2014 and 1.96 times the unaudited consolidated NA to equity holders of RHB Islamic of RM2,119.3 million as at 30 June 2014.</p> <p>The implied issue price of RM5.399 per share in CIMB Islamic for the RHB Islamic Purchase Consideration values CIMB Islamic at a PB Ratio of 2.00 times to the unaudited consolidated NA to equity holders of CIMB Islamic of RM2,699.3 million as at 31 March 2014 and 1.93 times to the unaudited consolidated NA to equity holders of CIMB Islamic of RM2,803.4 million as at 30 June 2014.</p> <p>(iii) The proposed merger of the Assets and Liabilities of CIMB Islamic, RHB Islamic and MBSB to create a mega Islamic bank (“Proposed Islamic Merger”).</p> <p>The Proposed Islamic Merger will involve the acquisition by CIMB Islamic of all the Assets and Liabilities of MBSB in consideration for new redeemable convertible preference shares in CIMB Islamic (“MBSB Consideration Shares”) (“Proposed MBSB Acquisition”). MBSB shall undertake a capital repayment exercise under Section 64 of the Act (“Proposed Capital Repayment”) to distribute the rights to the MBSB Consideration Shares (i.e. the CIMB Islamic redeemable</p>	
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MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2014

<p>convertible preference shares and/or the rights and entitlements thereunder) to all the shareholders of MBSB as at an entitlement date to be determined and announced later. Upon completion of the Proposed Capital Repayment, the relevant steps will be taken for the delisting of MBSB from the Main Market of Bursa Securities.</p> <p>The proposed consideration for the acquisition of the Assets and Liabilities of MBSB (“MBSB Purchase Consideration”) is RM2.820 per MBSB share and represents a premium of 20.5% to the market price of MBSB of RM2.34 as at the reference date of 9 July 2014. This is equivalent to an aggregate consideration of RM7,768.1 million (on a fully diluted basis, based on 2,676.0 million outstanding MBSB Shares, 18.0 million unexercised MBSB warrants 2011/2016 and 60.6 million unexercised MBSB employee share option scheme options as at 27 August 2014).</p> <p>The implied issue price of RM5.399 per share in CIMB Islamic for the MBSB Purchase Consideration values CIMB Islamic at a PB Ratio of 2.00 times the unaudited consolidated NA to equity holders of CIMB Islamic of RM2,699.3 million as at 31 March 2014 and 1.93 times the unaudited consolidated NA to equity holders of CIMB Islamic of RM2,803.4 million as at 30 June 2014.</p> <p>(iv) Upon completion of the Proposed Islamic Merger, the enlarged Islamic bank may undertake a capital raising exercise to bolster its capital base for future growth. It is envisaged that following the capital raising exercise, the merged CIMB Group-RHB Capital would retain a controlling stake in the mega Islamic bank.</p> <p>The Proposed Disposal and Proposed RHB Islamic Acquisition are not conditional upon the Proposed Islamic Merger and vice versa, or any other transaction or proposal involving the Parties.</p>	
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MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2014

B9. Borrowings and Debts

Borrowings of the Group as at 30 September 2014 were as follows:

	As at 30-9-14 RM'000	As at 31-12-13 RM'000
Short term bank borrowings	1,099,104	1,440,319
Islamic financing facility (secured)	<u>175,608</u>	<u>250,869</u>
	<u>1,274,712</u>	<u>1,691,188</u>
Maturity of borrowings:		
- One year or less	1,199,712	1,549,682
- More than one year	<u>75,000</u>	<u>141,506</u>
Total	<u>1,274,712</u>	<u>1,691,188</u>
Recourse obligation on loans sold to Cagamas Berhad (secured):		
- One year or less	488,694	97,230
- More than one year	<u>1,311,731</u>	<u>2,169,994</u>
Total	<u>1,800,425</u>	<u>2,267,224</u>

All borrowings are denominated in Ringgit Malaysia.

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EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2014

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:

	Cumulative	
	As at 30-9-14 RM'000	As at 31-12-13 RM'000
Total accumulated losses of the Group:		
- Realised	(327,545)	(769,019)
- Unrealised in respect of deferred tax recognised in the income statement	(55)	(11,967)
Total Group accumulated losses as per consolidated accounts	(327,600)	(780,986)
Add: Consolidated adjustments	591,519	551,469
	263,919	(229,517)

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.

B12. Material Litigation

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

B13. Dividends Proposed

None.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
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B14. Earnings Per Share**Basic**

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

	3rd quarter ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
Net profit attributable to shareholders for the year (RM'000)	192,368	132,721	621,957	464,020
Weighted average number of ordinary shares in issue ('000)	2,676,740	1,737,190	2,556,166	1,566,990
Basic earnings per share (sen)	<u>7.19</u>	<u>7.64</u>	<u>24.33</u>	<u>29.61</u>

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B14. Earnings Per Share (continued)**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. Employee Share Option Scheme (“ESOS”) and Warrants.

	3rd quarter ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
Net profit attributable to shareholders for the year (RM'000)	192,368	132,721	621,957	464,020
Weighted average number of ordinary shares in issue ('000)	2,676,740	1,737,190	2,556,166	1,566,990
Weighted average effect of dilution on ESOS ('000)	3,514	989	3,514	989
Weighted average effect of dilution on Warrants ('000)	8,740	14,610	8,740	14,610
Adjusted weighted average number of ordinary shares in issue ('000)	<u>2,688,994</u>	<u>1,752,789</u>	<u>2,568,420</u>	<u>1,582,589</u>
Diluted earnings per share (sen)	<u>7.15</u>	<u>7.57</u>	<u>24.22</u>	<u>29.32</u>

B15. Authorisation For Issue

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 3 November 2014.

BY ORDER OF THE BOARD

Koh Ai Hoon
Tong Lee Mee
Joint Company Secretaries
Kuala Lumpur
3 November 2014