

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

A1. Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 30 June 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	547	547	5
Issued at RM1.44 per share pursuant to ESOS	2,075	2,075	913
Issued at RM2.01 per share pursuant to ESOS	235	235	237
Issued at RM2.15 per share pursuant to ESOS	10	10	12
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	558,640
Issued at RM1.00 per share pursuant to warrants	365	365	-
Transfer from share option reserve	-	-	1,955
As at 30 June 2014	<u>2,674,356</u>	<u>2,674,356</u>	<u>1,243,758</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

	30-6-14 RM'000	31-12-13 RM'000
Personal financing	23,445,865	23,387,568
Mortgage loans and financing	5,296,210	5,356,557
Corporate loans and financing	3,132,372	2,924,769
Auto Financing	231,372	206,728
Staff loans	40,679	39,918
Gross loans, advances and financing	<u>32,146,498</u>	<u>31,915,540</u>
Allowance for impairment:		
- Collectively assessed	(1,344,713)	(1,318,453)
- Individually assessed	(278,745)	(300,865)
Net loans, advances and financing	<u>30,523,040</u>	<u>30,296,222</u>

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

	30-6-14	31-12-13
	RM'000	RM'000
Maturing within one year	1,956,171	1,862,220
One year to three years	414,151	662,994
Three years to five years	1,085,854	877,312
Over five years	28,690,322	28,513,014
	<u>32,146,498</u>	<u>31,915,540</u>

(iii) By economic purpose

	30-6-14	31-12-13
	RM'000	RM'000
Purchase of residential properties	5,020,136	5,078,238
Purchase of non-residential properties	296,720	298,725
Personal use	23,464,059	23,405,091
Property development	808,004	2,331,940
Working capital	1,311,350	326,616
Purchase of transport vehicles	233,212	208,716
Others	1,013,017	266,214
	<u>32,146,498</u>	<u>31,915,540</u>

(iv) By type of customers

	30-6-14	31-12-13
	RM'000	RM'000
Domestic non-bank financial institutions	274	151,267
Domestic business enterprises:		
- Small medium enterprises	3,048,710	2,868,796
- Others	244,512	65,559
Individuals	28,853,002	28,829,918
	<u>32,146,498</u>	<u>31,915,540</u>

(v) By interest/profit rate sensitivity

	30-6-14	31-12-13
	RM'000	RM'000
Fixed rate:		
Personal financing	23,458,437	23,404,339
Auto finance	233,212	208,716
Bridging, structured and term loans and financing	389,548	48,215
Variable rate:		
Cost of fund plus	8,065,301	8,254,270
	<u>32,146,498</u>	<u>31,915,540</u>

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

	30-6-14	31-12-13
	RM'000	RM'000
Malaysia	<u>32,146,498</u>	<u>31,915,540</u>

(vii) Movements in impaired loans, advances and financing

	3 months	6 months
	classification	classification
	30-6-14	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	1,374,446	982,861
Reclassified as non-impaired	(1,319,229)	(946,634)
Amount recovered	(56,025)	(47,733)
Bad debt recovered	15,278	-
Amount written off	<u>(11,433)</u>	<u>(1,340,899)</u>
Balance as at end of period	<u>2,412,052</u>	<u>1,648,383</u>
Collective allowance	(712,186)	(467,904)
Individual allowance	<u>(149,576)</u>	<u>(159,610)</u>
	<u>(861,762)</u>	<u>(627,514)</u>
Net impaired loans, advances and financing	<u>1,550,290</u>	<u>1,020,869</u>
Net impaired loans as per percentage of net loans, advances and financing	<u>5.1%</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**

	30-6-14	31-12-13
	RM'000	RM'000
Collective Impairment		
Balance as at 1 January	1,318,453	1,013,214
Impairment during the year	26,260	305,239
Balance as at 30 June	<u>1,344,713</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	(12,204)	(32,173)
Written off	(9,916)	(1,348,651)
Transfer to impairment for foreclosed properties	-	(2,370)
Balance as at 30 June	<u>278,745</u>	<u>300,865</u>

A9. Deposits from customers

	30-6-14	31-12-13
	RM'000	RM'000
By type of products:		
Savings	135,337	108,713
Fixed deposits	29,237,512	28,083,956
	<u>29,372,849</u>	<u>28,192,669</u>
By type of customers:		
Government and statutory bodies	21,729,897	20,141,023
Business enterprises	5,288,831	5,794,672
Individuals	2,354,121	2,256,974
	<u>29,372,849</u>	<u>28,192,669</u>
Maturity of deposits from customers:		
Within one year	27,401,848	25,812,374
More than one year	1,971,001	2,380,295
	<u>29,372,849</u>	<u>28,192,669</u>

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A10. Interest Income

	2nd quarter ended 30 June		Six months ended 30 June	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Loans, advances and financing	110,677	102,971	232,808	200,055
Deposits and placements with banks and other financial institutions	14,024	12,543	28,769	21,277
	<u>124,701</u>	<u>115,514</u>	<u>261,577</u>	<u>221,332</u>

A11. Interest Expenses

	2nd quarter ended 30 June		Six months ended 30 June	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Bank borrowings	2,983	1,603	9,844	3,270
Deposits from customers	38,062	71,675	126,189	138,497
	<u>41,045</u>	<u>73,278</u>	<u>136,033</u>	<u>141,767</u>

A12. Net Income from Islamic Banking Operations

	2nd quarter ended 30 June		Six months ended 30 June	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Financing	476,114	477,198	953,648	906,987
Sukuk Commodity Murabahah	16,435	-	32,848	-
Deposits placements	28,837	3,600	47,916	14,544
Less: Income attributable to depositors	(267,980)	(187,103)	(481,354)	(369,539)
	<u>253,406</u>	<u>293,695</u>	<u>553,058</u>	<u>551,992</u>

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A13. Other Income

	2nd quarter ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Rental income	72	168	303	343
Revenue from hotel operations	2,382	2,374	4,481	4,578
Loan agency fees	1	4	3	8
Loan processing fees	11,662	12,933	24,947	19,900
Insurance commission	8,633	6,554	9,489	12,965
Loan facility fees	1,280	1,507	1,359	2,269
Legal notice fees	459	646	1,194	211
Sundry income	1,251	5,796	2,852	10,563
Commission income	1,577	-	1,577	-
Gain/(loss) from disposal of:				
Foreclosed properties	-	446	-	448
Property, plant and equipment	-	-	-	(2)
	<u>27,317</u>	<u>30,428</u>	<u>46,205</u>	<u>51,283</u>

A14. Other Operating Expenses

	2nd quarter ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Personnel expenses:				
- Wages and salaries	18,219	22,453	42,933	44,185
- Social security costs	202	165	384	354
- Pension costs	2,720	4,059	6,512	7,718
- Share options granted under ESOS	1,360	-	6,934	2,225
- Other staff related expenses	2,797	2,146	5,725	3,872
	25,298	28,823	62,488	58,354
Establishment related expenses	4,768	3,811	8,823	7,487
Promotion and marketing related expenses	3,151	3,951	9,041	7,247
General administrative expenses	21,929	21,269	45,899	41,180
Allowance for impairment of other receivables	6,092	-	6,092	-
Others	7,439	6,688	14,609	13,146
	<u>68,677</u>	<u>64,542</u>	<u>146,952</u>	<u>127,414</u>

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

	2nd quarter ended		Six months ended	
	30 June		30 June	
	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	4,568	60,335	26,260	107,037
- Individual impairment	(4,172)	(6,168)	(12,204)	(35,968)
- Written off	(15,586)	61	(14,057)	(342)
	<u>(15,190)</u>	<u>54,228</u>	<u>(1)</u>	<u>70,727</u>

A16. Commitments and Contingencies

	30-6-14	31-12-13
	RM'000	RM'000
(i) Operational Commitments		
Loan commitments not yet recognised in the financial statements:		
End finance	283,506	309,763
Islamic properties	53,158	66,611
Islamic personal financing	1,376	-
Bridging, structured and term loans and financing	5,012,039	4,096,150
Financial guarantees	535,743	120,046
	<u>5,885,822</u>	<u>4,592,570</u>
Approved and contracted for property development	421,528	421,528
Total	<u>6,307,350</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	6,949	63,556
	<u>246,186</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 fixed for case management on 15 October 2014 pending Grounds of Judgement from Court of Appeal.

- (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 1 October 2014 and 3 October 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.

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 June 14				
External sales	660,020	2,382	9,680	672,082
Intersegment sales	12,530	867	(13,397)	-
Total revenue	<u>672,550</u>	<u>3,249</u>	<u>(3,717)</u>	<u>672,082</u>
Segment results	303,245	(2,183)	9,830	310,892
Unallocated income (net of cost)				-
Profit from operations				<u>310,892</u>
3 months ended 30 June 13				
External sales	611,898	2,374	26	614,298
Intersegment sales	3,668	696	(4,364)	-
Total revenue	<u>615,566</u>	<u>3,070</u>	<u>(4,338)</u>	<u>614,298</u>
Segment result	241,294	(1,866)	8,161	247,589
Unallocated income (net of cost)				-
Profit from operations				<u>247,589</u>
6 months ended 30 June 14				
External sales	1,315,710	4,481	19,001	1,339,192
Intersegment sales	24,611	1,717	(26,328)	-
Total revenue	<u>1,340,321</u>	<u>6,198</u>	<u>(7,327)</u>	<u>1,339,192</u>
Segment results	559,513	(4,520)	22,863	577,856
Unallocated income (net of cost)				-
Profit from operations				<u>577,856</u>
6 months ended 30 June 13				
External sales	1,170,394	4,578	(3,656)	1,171,316
Intersegment sales	5,373	1,372	(6,745)	-
Total revenue	<u>1,175,767</u>	<u>5,950</u>	<u>(10,401)</u>	<u>1,171,316</u>
Segment result	465,237	(3,823)	23,285	484,699
Unallocated income (net of cost)				-
Profit from operations				<u>484,699</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 30-6-14 RM'000
Additions	
Building renovation	2,970
Furniture & equipment	2,167
Data processing equipment	454
	<u>5,591</u>

A23. Significant Related Party Transactions

	2nd quarter ended 30 June		Six months ended 30 June	
	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	3,010	4,469	6,327	9,282
Rental paid	69	72	135	144
	<u> </u>	<u> </u>	<u> </u>	<u> </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 June 2014**

	Note	30-Jun-14 RM'000	31-Dec-13 RM'000
Assets			
Cash and short-term funds		4,383,816	3,143,346
Deposits and placements with financial institutions		50,817	6,686
Financing	A26c	25,205,278	25,012,990
Other receivables		535,308	134,873
Sukuk Commodity Murabahah		-	-
Total assets		<u>30,175,219</u>	<u>28,297,895</u>
Liabilities			
Deposits from customers	A26d	22,289,162	21,084,262
Other payables		4,221,786	3,933,920
Other borrowings		200,665	250,869
Financing sold to Cagamas Berhad		478,508	482,832
Sukuk - MBSB SC Murabahah		492,638	492,696
Provision for taxation		641,609	552,371
Provision for zakat		2,199	3,987
Total liabilities		<u>28,326,567</u>	<u>26,800,937</u>
Islamic fund		4,000	4,000
Retained profits		<u>1,844,652</u>	<u>1,492,958</u>
		<u>1,848,652</u>	<u>1,496,958</u>
Total liabilities and Islamic fund		<u>30,175,219</u>	<u>28,297,895</u>
Commitments and contingencies		<u>2,347,463</u>	<u>757,490</u>

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

	2nd quarter ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of general investment deposits and Islamic capital funds	521,386	480,797	1,034,412	921,531
Income attributable to depositors	(267,980)	(187,102)	(481,354)	(369,539)
Net income from financing operations	253,406	293,695	553,058	551,992
Other income	15,894	18,444	32,353	32,225
Other expenses	(37,614)	(31,500)	(87,388)	(64,245)
Allowance for losses on financing	(21,914)	(30,908)	(29,321)	(64,668)
Profit before taxation and zakat	209,772	249,731	468,702	455,304
Taxation	(52,497)	(62,432)	(116,394)	(113,826)
Zakat	(615)	(600)	(615)	(600)
Profit after taxation and zakat	156,661	186,699	351,693	340,878
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	156,661	186,699	351,693	340,878

A25c. Financing

(i) By type

	30-6-14	31-12-13
	RM'000	RM'000
Term financing:		
Corporate financing	668,147	504,681
Property financing	4,187,131	4,292,516
Personal financing	40,130,261	40,948,078
Auto financing	114,740	109,299
Staff financing	19,559	17,179
Less: Unearned income	(19,214,112)	(20,186,287)
Gross loans, advances and financing	25,905,726	25,685,466
Allowance for impairment:		
- Collectively assessed	(700,448)	(672,230)
- Individually assessed	-	(246)
Net financing	25,205,278	25,012,990

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

	30-6-14	31-12-13
	RM'000	RM'000
Bai Bithaman Ajil (deferred payment sale)	1,443,662	1,466,426
Bai Al-Inah (cost plus)	14,280,403	14,481,269
Tawarruq	8,846,705	8,628,769
Contract financing	634,508	436,526
	<u>25,205,278</u>	<u>25,012,990</u>

(iii) Impaired financing

	2014	2013
	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	651,408	500,077
Reclassified as non-impaired during the year	(531,078)	(374,200)
Amount written off	(813)	(45,256)
Balance as at 30 June	<u>1,123,371</u>	<u>616,734</u>
Individual/Collective allowance	<u>(380,666)</u>	<u>(218,325)</u>
Net financing	<u>742,705</u>	<u>398,409</u>
Net impaired financing as a percentage of net financing	<u>2.9%</u>	<u>1.6%</u>

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

	2014	2013
	RM'000	RM'000
Collective impairment		
Balance as at 1 January	672,230	506,344
Impairment during the year	28,157	166,682
Reclassification	61	(796)
Balance as at 30 June	<u>700,448</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 June	<u>-</u>	<u>246</u>

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

	30-6-14	31-12-13
	RM'000	RM'000
Al-Wadiah savings account	34,290	31,085
Mudharabah fund	22,254,872	21,053,177
	<u>22,289,162</u>	<u>21,084,262</u>

(ii) By type of customer

	30-6-14	31-12-13
	RM'000	RM'000
Business enterprises	22,233,509	21,031,691
Individuals	55,653	52,571
	<u>22,289,162</u>	<u>21,084,262</u>

(iii) By maturity of deposits from customers

	30-6-14	31-12-13
	RM'000	RM'000
Within one year	10,086,071	19,864,952
More than one year	12,203,091	1,219,310
	<u>22,289,162</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 June 2014 of RM577.856 million increased by RM93.157 million or 19% as compared to the previous year corresponding period profit before taxation of RM484.699 million. The increase was mainly due to lower allowances for impairment losses on loans, advances and financing as well as higher profit and interest income from corporate business and auto financing. This was further improved by higher other income.

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

Personal financing – The gross income from personal financing was lower due to the reducing growth of personal financing portfolio from lower disbursements.

Corporate loans and financing – The gross income from corporate loans and financing were higher due to the increasing growth of corporate loans and financing portfolio.

Mortgage loans and financing – The gross income from mortgage loans and financing was lower mainly due to low disbursements as compared to higher total collections and redemptions.

b) Current Quarter vs Previous Year Corresponding Quarter

The Group profit before tax for the 2nd quarter 2014 of RM310.892 million increased by RM63.303 million or 26% as compared to the preceding quarter of RM247.589 million. The increase was mainly as a result of lower impairment losses on loans, advances and financing and higher operating income. These were partly set off by lower other income and higher other operating expenses.

B2. Variation of Results against Preceding Quarter

The Group profit before tax for the 2nd quarter 2014 of RM310.892 million increased by RM43.928 million or 16% as compared to the preceding quarter of RM266.964 million. The increase was mainly as a result of lower impairment losses on loans, advances and financing, higher other income and lower other operating expenses. These were partly set off by lower operating income.

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B3. Prospects

Brief Overview and Outlook of the Malaysian Economy

The Malaysian economy registered a higher growth of 6.2% in the first quarter of 2014 (4Q 2013: 5.1%). Growth was driven by a stronger expansion in domestic demand and a turnaround in net exports. Private sector activity remained the main driver of growth in the first quarter, with sustained strong growth in both consumption and investment activities. Real exports of goods and services grew at a faster pace while real imports of goods and services were sustained, resulting in a positive growth in net exports. On a quarter-on-quarter seasonally adjusted basis, the economy grew by 0.8% (4Q 2013: 1.9%).

Domestic demand grew by 7.4% in the first quarter of 2014 (4Q 2013: 6.7%). Both private consumption and private investment continued to sustain strong performance, with private investment recording a double-digit growth rate. Public sector spending recorded a stronger expansion as higher consumption spending offset the decline in public investment.

The Federal Government recorded a lower fiscal deficit of 5.1% of GDP in the first quarter of 2014. This was due to higher revenue collection, mainly from higher individual income tax and non-tax revenue. Total expenditure recorded an increase of 5.9% on an annual basis, contributed by higher operating expenditure. Most of the increase in spending under operating expenditure was accounted for by payments for emoluments and debt service. Development expenditure was lower across the sectors. As at end-March 2014, total outstanding debt of the Federal Government amounted to RM560.6 billion or 52.2% of the estimated 2014 GDP.

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

Sound banking system

The banking system continued to be well-capitalised with the common equity tier 1 capital ratio (12%), tier 1 capital ratio (12.8%) and total capital ratio (14.4%) remaining well above the minimum regulatory level as at end-March 2014 (end-December 2013: 12%; 13%; 14.4%). The banking sector recorded pre-tax profits of RM8 billion (Q4 2013: RM8.2 billion) attributed to lower income growth from trading activities as well as underwriting and corporate advisory related services. Meanwhile, the level of net impaired loans remained stable at 1.3% of net total loans as at end-March 2014 (end-December 2013: 1.3%).

(Source: Extracted from the Quarterly Update on the Malaysian Economy – 1st Quarter 2014, Ministry of Finance)

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
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B3. Prospects (continued)

In the first quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM282.2 billion (4Q 2013: RM302.8 billion). On a net basis, outstanding banking system loans and PDS expanded at an annual growth rate of 9.6% as at end-March 2014 (end-December 2013: 9.8%).

Net lending to businesses by the banking system expanded by a smaller amount of RM8.3 billion (4Q 2013: RM11.1 billion) on account of higher repayments during the quarter. Overall loan disbursements remained steady with more funds channelled to the wholesale and retail, restaurants and hotels, primary agriculture, manufacturing, and real estate sectors. On an annual basis, outstanding business loans grew at a stable pace of 8.6% during the quarter (end-December 2013: 8.5%). Demand for new financing by businesses remained strong, with loan applications higher by RM1.1 billion compared to the previous quarter. This was mainly observed in the electricity, gas and water supply and transport, storage and communication sectors.

Net financing to the household sector expanded by RM16.1 billion during the quarter (4Q 2013: RM20.9 billion). On an annual basis, outstanding household loan growth moderated to 11.7% as at end-March (end-December 2013: 12%). Household demand for loans moderated during the quarter, with lower loan applications for the purchase of residential property, non-residential property and for personal use.

(Source: Extracted from BNM, Quarterly Bulletin, Monetary and Financial Developments in the Malaysian Economy, First 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 would be more challenging in 2014.

Whilst sustaining the personal financing portfolio, the Group has been expanding the corporate business segment including tapping into opportunities under the Federal Government's Economic Transformation Programme. The Group believes that a well-planned expansion programme into corporate segment will contribute positively to the Group in terms of assets and earnings growth whilst diversifying the assets base.

Enhancing risk management framework to improve operational workflows and assets quality would remain the top priority for the Group. The Group continues to strengthen its retail and corporate business and other new business strategies in anticipation of the expected challenges and changes in the operating environment to maintain its competitiveness.

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

B4. Variance from Profit Forecast and Profit Guarantee

None.

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

B5. Taxation

	2nd quarter ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Current income tax:				
Malaysian income tax	77,544	81,928	156,575	153,109
Tax refund	(103)	(25)	(103)	(25)
Over provision in prior years:				
Malaysian income tax	-	-	(8,783)	(197)
	<u>77,441</u>	<u>81,903</u>	<u>147,689</u>	<u>152,887</u>
Deferred tax:				
Relating to origination and reversal of temporary differences	(19)	(19)	(37)	(37)
	<u>(19)</u>	<u>(19)</u>	<u>(37)</u>	<u>(37)</u>
Total income tax expense	<u>77,422</u>	<u>81,884</u>	<u>147,652</u>	<u>152,850</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 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 JUNE 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>	Still in negotiation

B9. Borrowings and Debts

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

	As at 30-6-14 RM’000	As at 31-12-13 RM’000
Short term bank borrowings	600,850	1,440,319
Islamic financing facility (secured)	200,665	250,869
	<u>801,515</u>	<u>1,691,188</u>
Maturity of borrowings:		
- One year or less	701,515	1,549,682
- More than one year	100,000	141,506
Total	<u>801,515</u>	<u>1,691,188</u>
Recourse obligation on loans sold to Cagamas Berhad (secured):		
- One year or less	492,889	97,230
- More than one year	1,325,813	2,169,994
Total	<u>1,818,702</u>	<u>2,267,224</u>

All borrowings are denominated in Ringgit Malaysia.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 JUNE 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 30-6-14 RM'000	As at 31-12-13 RM'000
Total accumulated losses of the Group:		
- Realised	(506,419)	(769,019)
- Unrealised in respect of deferred tax recognised in the income statement	37	(11,967)
Total Group accumulated losses as per consolidated accounts	(506,382)	(780,986)
Add: Consolidated adjustments	576,863	551,469
	70,481	(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)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 JUNE 2014

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.

	2nd quarter ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Net profit attributable to shareholders for the year (RM'000)	232,855	165,105	429,589	331,249
Weighted average number of ordinary shares in issue ('000)	2,630,630	1,688,643	2,494,880	1,480,714
Basic earnings per share (sen)	8.85	9.78	17.22	22.37

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

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.

	2nd quarter ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
Net profit attributable to shareholders for the year (RM'000)	232,855	165,105	429,589	331,249
Weighted average number of ordinary shares in issue ('000)	2,630,630	1,688,643	2,494,880	1,480,714
Weighted average effect of dilution on ESOS ('000)	2,497	8,145	2,497	8,145
Weighted average effect of dilution on Warrants ('000)	8,396	11,770	8,396	11,770
Adjusted weighted average number of ordinary shares in issue ('000)	<u>2,641,523</u>	<u>1,708,558</u>	<u>2,505,773</u>	<u>1,500,629</u>
Diluted earnings per share (sen)	<u>8.82</u>	<u>9.66</u>	<u>17.14</u>	<u>22.07</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 14 August 2014.

BY ORDER OF THE BOARD

Koh Ai Hoon
Tong Lee Mee
Joint Company Secretaries
Kuala Lumpur
14 August 2014