

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 DECEMBER 2014

A1. Basis of Preparation

The condensed interim financial statements for the financial year ended 31 December 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 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 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 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 the 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 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	10,230	10,230	102
Issued at RM1.44 per share pursuant to ESOS	2,618	2,618	1,152
Issued at RM2.01 per share pursuant to ESOS	16,579	16,579	16,745
Issued at RM2.15 per share pursuant to ESOS	8,688	8,688	9,991
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	558,448
Issued at RM1.00 per share pursuant to warrants	384	384	-
Transfer from share option reserve	-	-	10,438
As at 31 December 2014	<u>2,709,623</u>	<u>2,709,623</u>	<u>1,278,872</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. Dividend 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**

	31-12-14 RM'000	31-12-13 RM'000
Personal financing	23,395,418	23,387,568
Mortgage loans and financing	5,279,788	5,356,557
Corporate loans and financing	3,677,660	2,924,769
Auto Financing	280,344	206,728
Staff loans	45,364	39,918
Gross loans, advances and financing	<u>32,678,574</u>	<u>31,915,540</u>
Allowance for impairment:		
- Collectively assessed	(1,437,747)	(1,318,453)
- Individually assessed	(208,679)	(300,865)
Net loans, advances and financing	<u>31,032,148</u>	<u>30,296,222</u>

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

	31-12-14	31-12-13
	RM'000	RM'000
Maturing within one year	1,691,198	1,862,220
One year to three years	592,130	662,994
Three years to five years	769,799	877,312
Over five years	29,625,447	28,513,014
	<u>32,678,574</u>	<u>31,915,540</u>

(iii) By economic purpose

	31-12-14	31-12-13
	RM'000	RM'000
Purchase of residential properties	5,011,516	5,078,238
Purchase of non-residential properties	291,085	298,725
Personal use	23,416,107	23,405,091
Property development	2,070,967	2,331,940
Working capital	817,857	326,616
Purchase of transport vehicles	282,202	208,716
Others	788,840	266,214
	<u>32,678,574</u>	<u>31,915,540</u>

(iv) By type of customers

	31-12-14	31-12-13
	RM'000	RM'000
Domestic non-bank financial institutions	-	151,267
Domestic business enterprises:		
- Small medium enterprises	1,318,941	2,868,796
- Others	2,474,248	65,559
Individuals	28,885,385	28,829,918
	<u>32,678,574</u>	<u>31,915,540</u>

(v) By interest/profit rate sensitivity

	31-12-14	31-12-13
	RM'000	RM'000
Fixed rate:		
Personal financing	23,401,781	23,404,339
Auto finance	282,202	208,716
Mortgage and property islamic	937,824	
Bridging, structured and term loans and financing	540,241	48,215
Variable rate:		
Cost of fund plus	7,516,526	8,254,270
	<u>32,678,574</u>	<u>31,915,540</u>

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A8. Loans, Advances and Financing (continued)**(vi) Movements in impaired loans, advances and financing**

	3 months classification 31-12-14 RM'000	6 months classification 31-12-13 RM'000
Balance as at 1 January	1,648,383	3,000,789
Increase in balance due to change from 6 months to 3 months classification for impaired loans/financing	<u>873,487</u>	<u>-</u>
	2,521,870	3,000,789
Classified as impaired during the period	2,606,390	982,861
Reclassified as non-impaired	(2,744,898)	(946,634)
Amount recovered	(168,422)	(47,783)
Amount written off	<u>(69,147)</u>	<u>(1,340,850)</u>
Balance as at end of period	<u>2,145,793</u>	<u>1,648,383</u>
Collective allowance	(839,425)	(467,904)
Individual allowance	<u>(48,774)</u>	<u>(159,610)</u>
	<u>(888,199)</u>	<u>(627,514)</u>
Net impaired loans, advances and financing	<u>1,257,594</u>	<u>1,020,869</u>
Net impaired loans as per percentage of net loans, advances and financing	<u>4.1%</u>	<u>3.4%</u>

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

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

	31-12-14 RM'000	31-12-13 RM'000
Collective Impairment		
Balance as at 1 January	1,318,453	1,013,214
Impairment during the year	<u>119,294</u>	<u>305,239</u>
Balance as at 31 December	<u>1,437,747</u>	<u>1,318,453</u>
As of % of gross loans, advances and financing less individual allowance	4.4%	4.2%
Individual Impairment		
Balance as at 1 January	300,865	1,684,059
(Write back of impairment)/ impairment during the period	7,824	(32,173)
Written off	(94,032)	(1,348,651)
Transfer to subsidiaries	(5,978)	-
Transfer to impairment for foreclosed properties	<u>-</u>	<u>(2,370)</u>
Balance as at 31 December	<u>208,679</u>	<u>300,865</u>

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A9. Deposits from customers

	31-12-14	31-12-13
	RM'000	RM'000
By type of products:		
Savings	117,323	108,713
Fixed deposits	<u>27,413,535</u>	<u>28,083,956</u>
	<u>27,530,858</u>	<u>28,192,669</u>
By type of customers:		
Government and statutory bodies	19,318,499	20,141,023
Business enterprises	5,906,404	5,794,672
Individuals	<u>2,305,955</u>	<u>2,256,974</u>
	<u>27,530,858</u>	<u>28,192,669</u>
Maturity of deposits from customers:		
Within one year	25,159,654	25,812,374
More than one year	<u>2,371,204</u>	<u>2,380,295</u>
	<u>27,530,858</u>	<u>28,192,669</u>

A10. Interest Income

	4th quarter ended		Twelve months ended	
	31 December		31 December	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Loans, advances and financing	114,605	128,882	465,029	430,247
Interest held-to maturity	-	-	-	100
Deposits and placements with banks and other financial institutions	<u>10,613</u>	<u>7,605</u>	<u>54,358</u>	<u>35,424</u>
	<u>125,218</u>	<u>136,487</u>	<u>519,387</u>	<u>465,771</u>

A11. Interest Expenses

	4th quarter ended		Twelve months ended	
	31 December		31 December	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Bank borrowings	3,735	1,564	13,132	6,383
Deposits from customers	64,982	60,749	261,766	267,744
Loans sold to Cagamas Berhad	-	93,775	-	93,775
	<u>68,717</u>	<u>156,088</u>	<u>274,898</u>	<u>367,902</u>

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A12. Net Income from Islamic Banking Operations

	4th quarter ended 31 December		Twelve months ended 31 December	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Financing	395,919	520,415	1,836,402	1,931,377
Sukuk Commodity Murabahah	4,709	3,749	53,854	3,749
Deposits placements	29,529	14,298	105,073	40,692
Less: Income attributable to depositors	(242,933)	(123,052)	(967,925)	(710,954)
	<u>187,224</u>	<u>415,410</u>	<u>1,027,404</u>	<u>1,264,864</u>

A13. Other Income

	4th quarter ended 31 December		Twelve months ended 31 December	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Rental income	84	62	459	117
Revenue from hotel operations	2,616	2,870	9,155	9,755
Loan agency fees	1	3	5	16
Loan processing fees	12,322	34,054	51,798	48,763
Insurance commission	453	5,532	10,895	20,330
Loan facility fees	-	2,479	-	14,208
Legal notice fees	70	447	1,820	1,004
Sundry income	2,704	14,485	8,957	27,908
Gain from disposal of:				
PPE and land use rights	1	-	3	2,935
Investment properties	-	-	166	-
Foreclosed properties	4,050	-	4,050	448
Inventories	4,479	-	4,479	15,001
	<u>26,780</u>	<u>59,932</u>	<u>91,787</u>	<u>140,485</u>

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A14. Other Operating Expenses

	4th quarter ended 31 December		Twelve months ended 31 December	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Personnel expenses:				
- Wages and salaries	29,521	23,462	99,554	92,289
- Social security costs	216	189	808	731
- Pension costs	4,537	3,611	15,098	15,243
- Share options granted under ESOS	1,566	2,266	12,389	7,786
- Other staff related expenses	3,810	3,564	13,338	9,449
	39,650	33,092	141,187	125,498
Establishment related expenses	4,671	4,288	15,857	14,530
Promotion and marketing related expenses	-	9,362	13,603	20,179
General administrative expenses	24,273	16,703	72,871	64,296
Others	14,533	50,701	61,431	70,793
	<u>83,127</u>	<u>114,146</u>	<u>304,949</u>	<u>295,296</u>

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

	4th quarter ended 31 December		Twelve months ended 31 December	
	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	64,253	85,697	119,295	305,239
- Individual impairment	21,177	2,914	7,824	(32,173)
- Written off	14,666	1,569	(944)	2,507
	<u>100,096</u>	<u>90,180</u>	<u>126,175</u>	<u>275,573</u>

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A16. Commitments and Contingencies

	31-12-14	31-12-13
	RM'000	RM'000
(i) Operational Commitments		
Loan commitments not yet recognised in the financial statements:		
End finance	314,516	309,763
Islamic properties	63,221	66,611
Islamic personal financing	2,493	-
Bridging, structured and term loans and financing	7,251,844	4,096,150
Financial guarantees	85,110	120,046
	<u>7,717,184</u>	<u>4,592,570</u>
Approved and contracted for property development	<u>421,528</u>	<u>421,528</u>
Total	<u>8,138,712</u>	<u>5,014,098</u>
(ii) Capital Commitments		
Property, plant and equipment:		
Approved and contracted for	196,822	239,237
Approved but not contracted for	-	63,556
	<u>196,822</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.

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.

- (ii) A third party and its holding company (collectively "the Plaintiffs") have instituted a civil suit against the Company and its subsidiary for an alleged breach of facility agreement. On conclusion of the Full Trial, the Court dismissed the Plaintiffs' claim with costs and allowed the Company's counterclaim. The Plaintiffs have filed an appeal to the Court of Appeal against the decision. The date for the Appeal has yet to be fixed.

Separately, the Plaintiffs had on 25 April 2013 served an originating summons on the Company seeking for an order from the Johor Bahru High Court that the charge created in favour of the Company be set aside and is of no effect and for a removal and cancellation of the same. On 13 December 2013 after the hearing, the Plaintiffs' application was allowed. The Court of Appeal dismissed the Company's appeal. The Company's application to the Federal Court for leave to appeal was allowed on 29 January 2015. The Federal Court has yet to fix a date for the hearing of the appeal proper.

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.

	Financing RM'000	Hotel Operations RM'000	Eliminations RM'000	Consolidated RM'000
3 months ended 31 December 14				
External sales	584,904	2,616	6,810	594,330
Intersegment sales	11,582	859	(12,441)	-
Total revenue	<u>596,486</u>	<u>3,475</u>	<u>(5,631)</u>	<u>594,330</u>
Segment results	99,181	(3,134)	(8,765)	87,282
Unallocated income (net of cost)				-
Profit from operations				<u>87,282</u>
3 months ended 31 December 13				
External sales	708,404	2,870	9,467	720,741
Intersegment sales	12,124	888	(13,012)	-
Total revenue	<u>720,528</u>	<u>3,758</u>	<u>(3,545)</u>	<u>720,741</u>
Segment result	247,493	(1,685)	5,607	251,415
Unallocated income (net of cost)				-
Profit from operations				<u>251,415</u>
	Financing RM'000	Hotel Operations RM'000	Eliminations RM'000	Consolidated RM'000
12 months ended 31 December 14				
External sales	2,569,981	9,155	33,376	2,612,512
Intersegment sales	47,947	3,416	(51,363)	-
Total revenue	<u>2,617,928</u>	<u>12,571</u>	<u>(17,987)</u>	<u>2,612,512</u>
Segment results	914,707	(10,887)	28,736	932,556
Unallocated income (net of cost)				-
Profit from operations				<u>932,556</u>
12 months ended 31 December 13				
External sales	2,498,264	9,755	28,071	2,536,090
Intersegment sales	42,401	2,965	(45,366)	-
Total revenue	<u>2,540,665</u>	<u>12,720</u>	<u>(17,295)</u>	<u>2,536,090</u>
Segment result	900,119	(7,505)	39,735	932,349
Unallocated income (net of cost)				-
Profit from operations				<u>932,349</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 31-12-14 RM'000
Additions	
Building in progress	42,415
Building renovation	5,949
Furniture & equipment	3,704
Data processing equipment	1,352
	<u>53,420</u>

A23. Significant Related Party Transactions

	Twelve months ended 31 December	
	2014 RM'000	2013 RM'000
(i) Transactions with Employees Provident Fund Board, the ultimate holding body:		
Expenses		
Interest on loans	11,363	16,853
Rental expense	275	286
Balances		
Other borrowings	<u>150,544</u>	<u>250,869</u>
(ii) Transactions with RHB Banking Group of companies:		
Expenses		
Sukuk facility agent fees	<u>4,755</u>	<u>1,339</u>
Balances		
Deposits and placements with financial institutions	2,193	750,162
Deposits from customers	-	208
Bank borrowings	475,396	500,111
Recourse obligation on loans sold to Caagamas Berhad	<u>910,727</u>	<u>946,034</u>
(iii) Collectively, but not individually, significant balances		
Balances		
Deposit from customers	<u>774,428</u>	<u>83</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. Consolidated Statements of Financial Position as at 31 December 2014**

	Note	31-Dec-14 RM'000	31-Dec-13 RM'000
Assets			
Cash and short-term funds		4,447,110	3,143,346
Deposits and placements with financial institutions		83,142	6,686
Financing	A25c	25,962,554	25,012,990
Other receivables		601,579	134,873
Sukuk Commodity Murabahah		-	-
Total assets		<u>31,094,385</u>	<u>28,297,895</u>
Liabilities			
Deposits from customers	A25d	21,054,086	21,084,262
Other payables		3,776,153	3,933,920
Bank borrowings		600,510	-
Other borrowings		150,544	250,869
Financing sold to Cagamas Berhad		1,477,120	482,832
Sukuk - MBSB SC Murabahah		1,150,124	492,696
Provision for taxation		753,923	552,371
Provision for zakat		5,712	3,987
Total liabilities		<u>28,968,172</u>	<u>26,800,937</u>
Islamic fund		4,000	4,000
Retained profits		<u>2,122,213</u>	<u>1,492,958</u>
		<u>2,126,213</u>	<u>1,496,958</u>
Total liabilities and Islamic fund		<u>31,094,385</u>	<u>28,297,895</u>

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A25b. Consolidated Statements of Comprehensive Income for the Year Ended 31 December 2014

	4th quarter ended		Twelve months ended	
	31 December		31 December	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of general investment deposits and Islamic capital funds	430,157	538,461	1,995,329	1,975,818
Income attributable to depositors	(242,933)	(123,051)	(967,925)	(710,954)
Net income from financing operations	187,224	415,410	1,027,404	1,264,864
Other income	15,082	15,515	68,844	58,579
Other expenses	(47,857)	(44,820)	(186,293)	(143,237)
Allowance for losses on financing	(10,023)	(65,413)	(73,350)	(168,491)
Profit before taxation and zakat	144,426	320,692	836,605	1,011,715
Taxation	(29,029)	(79,338)	(202,005)	(252,094)
Zakat	(4,730)	(3,077)	(5,345)	(3,677)
Profit after taxation and zakat	110,667	238,277	629,255	755,944
Other comprehensive income	-	-	-	-
Total comprehensive income for the period/year	110,667	238,277	629,255	755,944

A25c. Financing

(i) By type

	31-12-14	31-12-13
	RM'000	RM'000
Term financing:		
Corporate financing	2,204,727	504,681
Property financing	4,244,196	4,292,516
Personal financing	39,240,740	40,948,078
Auto financing	139,741	109,299
Staff financing	20,324	17,179
Less: Unearned income	(19,143,455)	(20,186,287)
Gross loans, advances and financing	26,706,273	25,685,466
Allowance for impairment:		
- Collectively assessed	(743,719)	(672,230)
- Individually assessed	-	(246)
Net financing	25,962,554	25,012,990

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 DECEMBER 2014

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

	31-12-14	31-12-13
	RM'000	RM'000
Bai Bithaman Ajil (deferred payment sale)	1,464,680	1,466,426
Bai Al-Inah (cost plus)	13,997,702	14,481,269
Tawarruq	9,055,975	8,628,769
Contract financing	1,444,197	436,526
	<u>25,962,554</u>	<u>25,012,990</u>

(iii) Impaired financing

	31-12-14	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	1,291,355	500,077
Reclassified as non-impaired during the year	(1,136,111)	(374,200)
Amount written off	(812)	(45,256)
Balance as at 31 December	<u>1,158,286</u>	<u>616,734</u>
Individual/Collective allowance	<u>(404,518)</u>	<u>(218,325)</u>
Net financing	<u>753,768</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:

	31-12-14	31-12-13
	RM'000	RM'000
Collective impairment		
Balance as at 1 January	672,230	506,344
Impairment during the year	71,428	166,682
Reclassification	61	(796)
Balance as at 31 December	<u>743,719</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 31 December	<u>-</u>	<u>246</u>

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

	31-12-14	31-12-13
	RM'000	RM'000
Al-Wadiah savings account	39,173	31,085
Mudharabah fund	21,014,913	21,053,177
	<u>21,054,086</u>	<u>21,084,262</u>

(ii) By type of customer

	31-12-14	31-12-13
	RM'000	RM'000
Business enterprises	20,974,357	21,031,691
Individuals	79,729	52,571
	<u>21,054,086</u>	<u>21,084,262</u>

(iii) By maturity of deposits from customers

	31-12-14	31-12-13
	RM'000	RM'000
Within one year	19,972,862	19,864,952
More than one year	1,081,224	1,219,310
	<u>21,054,086</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 Year-to-Date vs Previous Corresponding Year-to-Date

The Group profit before tax for the financial year ended 31 December 2014 of RM932.556 million increased by RM0.207 million as compared to the previous year ended profit before taxation of RM932.349 million. The increase was mainly due to lower allowances for impairment losses on loans, advances and financing.

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

Personal financing – The gross income from personal financing was consistent with the previous corresponding year.

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 year.

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

b) Current Quarter vs Previous Year Corresponding Quarter

The Group profit before tax for the 4th quarter 2014 of RM87.282 million decreased by RM164.133 million or is at 65% of the previous year corresponding quarter of RM251.415 million. The decrease was mainly due to lower operating income and higher impairment losses on loans, advances and financing.

B2. Variation of Results against Preceding Quarter

The Group profit before tax for the 4th quarter 2014 of RM87.282 million decreased by RM180.136 million or is at 67% of the preceding quarter of RM267.418 million. The decrease was mainly as a result of lower operating income and higher impairment losses on loans, advances. These were partly set off by higher other operating income.

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

The Malaysian economy expanded by 5.6% in the third quarter of 2014 (2Q 2014: 6.5%). Overall, growth was supported by private domestic demand, amid continued contraction in public expenditure. As real exports of goods and services recorded a positive growth amid a slower pace of expansion in real imports of goods and services, net exports continued to contribute positively to growth during the quarter. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 0.9% (2Q 2014: 1.9%).

Domestic demand grew by 4.8% in the third quarter (2Q 2014: 5.8%), with private sector activity being the key driver of growth. Public sector spending declined further during the quarter as the contraction in public investment more than offset the improvement in public consumption.

The Government fiscal deficit declined to -0.7% during the quarter. This was supported by a higher revenue collection and a decline in operating expenditure. Federal Government revenue increased by 3.8% on an annual basis, driven by higher collection from corporate and indirect taxes, reflecting sustained economic activity. Federal Government operating expenditure declined by 0.9% on an annual basis due to lower expenditures on fuel subsidies and grants and transfers to statutory bodies. As at end-September 2014, total outstanding debt of the Federal Government amounted to RM569.3 billion or 52.8% of estimated 2014 GDP. In October, the Government tabled the 2015 Budget outlining a lower fiscal deficit target of 3% of GDP for 2015, reflecting its firm commitment to the fiscal consolidation path.

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

Sound Banking System

The banking sector remained strong and well capitalised during the third quarter of 2014. The common equity tier 1 (CET1) capital ratio and tier 1 capital ratio held steady at 12.8% and 13.5%, respectively (end-June 2014: 12.7%; 13.4%). Meanwhile, the total capital ratio improved to 15.5% (end-June 2014: 15.3%). The pre-tax profit of the banking system was sustained at RM8.1 billion (Q2 2014: RM8.1 billion), with returns on assets and equity at 1.5% and 15.6%, respectively. Similar to the previous quarter, loan quality of the banking system was stable with the net impaired loans ratio at 1.3% of net total loans.

(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 third quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM302.1 billion (2Q2014: RM281.0 billion). On a net basis, outstanding banking system loans and PDS expanded by 8.9% as at end-September (end-June 2014: 9.1%).

Net lending to businesses by the banking system expanded by a lower amount of RM5.3 billion during the quarter (2Q 2014: RM8.0 billion). Nonetheless, loans disbursed to businesses increased during the quarter, with higher funds channelled to the electricity, gas and water supply; wholesale and retail trade, and restaurants and hotels; and real estate sectors. On an annual basis, outstanding business loans increased at a higher rate of 7.8% as at end September (end-June 2014: 7.2%). Demand for new financing by businesses remained strong, with higher loan applications compared to the previous quarter by both large corporates and SMEs. This was matched by higher loan approvals to both segments.

Net financing to the household sector expanded by RM16.4 billion during the quarter (2Q 2014: RM18.6 billion). On an annual basis, outstanding household loans moderated to 10.7% as at end September (end-June 2014: 11.5%).

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

Group Prospects

Over the year, the Group's focus on expansion of corporate business segment has shown positive contribution, notably growth in corporate loans/financing assets and earnings whilst the retail segment businesses have been moderate.

Given the challenges in operating environment under the current economic conditions, in 2015, the Group will continue to strengthen its corporate business and retail operating activities with new strategies to maintain its competitiveness. These activities and strategies include improving 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

	4th quarter ended 31 December		Twelve months ended 31 December	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Current income tax:				
Malaysian income tax	43,906	114,173	275,549	330,000
Tax refund	-	-	(103)	(5)
Over provision in prior years:				
Malaysian income tax	<u>11,635</u>	<u>20</u>	<u>2,852</u>	<u>568</u>
	<u>55,541</u>	<u>114,193</u>	<u>278,298</u>	<u>330,563</u>
Deferred tax:				
Relating to origination and reversal of temporary differences	<u>(366,061)</u>	<u>597</u>	<u>(366,116)</u>	<u>541</u>
	<u>(366,061)</u>	<u>597</u>	<u>(366,116)</u>	<u>541</u>
Total income tax expense	<u>(310,520)</u>	<u>114,790</u>	<u>(87,818)</u>	<u>331,104</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 31 DECEMBER 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>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 14 January 2015, Aminvestment Bank Berhad had on behalf of the Company announced that CIMB Group has informed the Company that CIMB Group has decided to abort the Proposed Merger. Accordingly, the Board has decided to cease all discussions on the Proposed Merger.</p> <p>CIMB Group has also informed that CIMB Group and RHB Capital’s joint application to Bank Negara Malaysia for the approval of the Proposed Merger has been withdrawn. With that, the exclusivity period pursuant to the exclusivity agreement between CIMB Group, RHB Capital and MBSB dated 10 July 2014 expired on 14 January 2015.</p>

B9. Borrowings and Debts

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

	As at 31-12-14 RM’000	As at 31-12-13 RM’000
Short term bank borrowings	1,415,844	1,440,319
Islamic financing facility (secured)	<u>150,544</u>	<u>250,869</u>
	<u>1,566,388</u>	<u>1,691,188</u>
Maturity of borrowings:		
- One year or less	1,516,388	1,549,682
- More than one year	<u>50,000</u>	<u>141,506</u>
Total	<u>1,566,388</u>	<u>1,691,188</u>
Recourse obligation on loans sold to Cagamas Berhad (secured):		
- One year or less	101,888	97,230
- More than one year	<u>2,271,151</u>	<u>2,169,994</u>
Total	<u>2,373,039</u>	<u>2,267,224</u>

All borrowings are denominated in Ringgit Malaysia.

B10. Off Balance Sheet Financial Instruments

None.

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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 31-12-14 RM'000	As at 31-12-13 RM'000
Total accumulated losses of the Group:		
- Realised	(279,815)	(769,019)
- Unrealised in respect of deferred tax recognised in the income statement	354,149	(11,967)
Total Group accumulated losses as per consolidated accounts	74,334	(780,986)
Add: Consolidated adjustments	582,773	551,469
	657,107	(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.

B13A. Dividends Proposed

Based on the audited Group profit after tax of RM1.015 billion, the Board of Directors has proposed a single tier final dividend of 10.0% and a single tier special dividend of 2.0% for the financial year ended 31 December 2014. Based on the number of shares in issue of 2,711,277,000 shares as at 6 February 2015, the final and special dividend payable would be approximately RM325.353 million.

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

The Board of Directors of the Company (“Board”) has now determined that the option to reinvest via the DRP shall apply to the entire portion of the proposed single-tier final dividend of 10% and single-tier special dividend of 2% for the financial year ended 31 December 2014. The approval for the proposed single-tier final dividend of 10% and single-tier special dividend of 2% will be sought at the coming Annual General Meeting.

The DRP provides the shareholders with opportunity to reinvest their dividends in new MBSB shares in lieu of receiving cash. This provides greater flexibility for the shareholders in meeting their investment objective with the choice of receiving cash or reinvesting in the Company via the subscription of new additional MBSB shares.

Under the DRP, shareholders will have the following options in respect of the electable portion:

- (a) elect to exercise the option to reinvest and thereby reinvest the entire electable portion at the issue price of the new MBSB shares (“DRP Price”) and to receive cash for the remaining portion of the dividend (in the event that only part of the electable portion is reinvested); or
- (b) elect not to exercise the option to reinvest and thereby receive their entire dividend entitlement wholly in cash.

There will be no brokerage fees and other related transaction costs payable by shareholders on the new MBSB shares allotted pursuant to the DRP.

The DRP Price shall be at a discount of not more than ten percent (10%) to the five (5)-day volume weighted average market price (“VWAP”) of MBSB Shares immediately prior to the date of fixing of the DRP Price provided that the DRP Price shall not be less than the par value of MBSB Shares of RM1.00 each at the material time. The VWAP shall be adjusted ex-dividend before applying the discount in fixing the DRP Price. The DRP Price shall be announced on or before the announcement of the books closure date (“Books Closure Date”) in relation to the above proposed single-tier dividend of 5% to which the option to reinvest applies.

An approval for the listing of and quotation for the new MBSB Shares on the Main Market of Bursa Securities pursuant to the DRP will be obtained from Bursa Securities and the announcement on the Books Closure Date will be made after receipt of the said approval from Bursa Securities and such approval from other relevant authorities (if any).

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B13B. MBSB Dividend Reinvestment Plan (continued)

Subsequent to the Books Closure Date, a notice of election pursuant to the DRP (“Notice of Election”) will be despatched to shareholders. Instructions will be provided in the Notice of Election in respect of the action to be taken by shareholders should they wish to exercise the option to reinvest. The Notice of Election will also state, inter-alia, the last day (which will be a date to be fixed and announced by the Board) by which an election to be made by shareholders in relation to the electable portion must be received by the Company (“Expiry Date”).

An announcement will also be made in respect of the day on which the new MBSB shares will be listed and quoted on the Main Market of Bursa Securities.

B15. 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.

	4th quarter ended		Twelve months ended	
	31 December		31 December	
	2014	2013	2014	2013
Net profit attributable to shareholders for the year (RM'000)	393,072	133,548	1,015,029	597,568
Weighted average number of ordinary shares in issue ('000)	2,699,835	1,744,102	2,592,379	1,611,998
Basic earnings per share (sen)	<u>14.56</u>	<u>7.66</u>	<u>39.15</u>	<u>37.07</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.

	4th quarter ended		Twelve months ended	
	31 December		31 December	
	2014	2013	2014	2013
Net profit attributable to shareholders for the year (RM'000)	393,072	133,548	1,015,029	597,568
Weighted average number of ordinary shares in issue ('000)	2,699,835	1,744,102	2,592,379	1,611,998
Weighted average effect of dilution on ESOS ('000)	2,637	4,013	2,637	4,013
Weighted average effect of dilution on Warrants ('000)	10,541	11,740	10,541	11,740
Adjusted weighted average number of ordinary shares in issue ('000)	<u>2,713,013</u>	<u>1,759,855</u>	<u>2,605,557</u>	<u>1,627,751</u>
Diluted earnings per share (sen)	<u>14.49</u>	<u>7.59</u>	<u>38.96</u>	<u>36.71</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 16 February 2015.

BY ORDER OF THE BOARD

Koh Ai Hoon
Tong Lee Mee
Joint Company Secretaries
Kuala Lumpur
16 February 2015