

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

CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017

	As at 30 September 2017 (RM'000)	As at 31 December 2016 (RM'000)
ASSETS		
Cash and short term funds	6,231,417	6,639,369
Deposits and placements with financial institutions	2,201,385	1,076,078
Trade receivables	512	542
Other receivables	146,679	150,553
Inventories	103,247	103,201
Loans, advances and financing	32,502,287	32,193,478
Financial investments available-for-sale	3,043,650	2,364,750
Property, plant and equipment	160,264	141,713
Land use rights	5,463	5,584
Tax recoverable	515,453	549,248
Intangible assets	11,782	15,415
Deferred tax assets	29,721	28,113
TOTAL ASSETS	44,951,860	43,268,044
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits from customers	33,141,829	30,611,324
Bank borrowings	-	575,275
Trade payables	192	187
Other payables	319,338	303,986
Provision for taxation and zakat	4,733	7,814
Recourse obligation on loans/financing sold	1,924,337	2,420,175
Sukuk - MBSB Structured Covered ("SC") Murabahah	2,547,793	2,615,807
Deferred tax liabilities	7,639	9,428
TOTAL LIABILITIES	37,945,861	36,543,996
Share capital	5,943,278	5,798,774
Share premium	198,449	198,449
Other reserves	38,830	20,957
Retained earnings	825,442	705,868
Total equity	7,005,999	6,724,048
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	44,951,860	43,268,044
COMMITMENTS AND CONTINGENCIES	6,729,089	5,030,529
Net assets per share attributable to shareholders (RM)	1.18	1.16

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2016.

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

CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIOD
ENDED 30 SEPTEMBER 2017

	3rd quarter ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Revenue	816,868	830,253	2,441,489	2,455,393
Income derived from investment of general investment deposits and Islamic capital funds	665,435	671,183	1,967,837	1,986,212
Income attributable to depositors	(281,417)	(247,872)	(775,694)	(759,555)
Income attributable to securitisation	(21,623)	(31,241)	(74,125)	(95,627)
Income attributable to sukuk	(81,353)	(91,859)	(250,247)	(281,271)
Net income from Islamic financing operations	281,042	300,211	867,771	849,759
Interest income	112,864	116,089	358,035	333,304
Interest expense	(30,175)	(63,524)	(149,569)	(192,596)
Net interest income	82,689	52,565	208,466	140,708
Operating income	363,731	352,776	1,076,237	990,467
Other income	7,550	8,772	27,350	40,515
Net income	371,281	361,548	1,103,587	1,030,982
Other operating expenses	(85,236)	(77,849)	(241,988)	(235,043)
Operating profit	286,045	283,699	861,599	795,939
Allowance for impairment losses on loans, advances and financing	(156,007)	(209,983)	(489,162)	(608,404)
Profit before taxation and zakat	130,038	73,716	372,437	187,535
Taxation	(29,302)	(15,789)	(79,422)	(34,227)
Zakat	-	-	129	2,463
Profit for the period	100,736	57,927	293,144	155,771
Other comprehensive income - AFS revaluation reserve, which may be reclassified subsequently to profit or loss	1,129	7,588	18,272	24,917
Total comprehensive income for the period, net of tax	101,865	65,515	311,416	180,688
Earnings per share (sen)				
Basic/diluted	1.70	1.18	5.01	4.40

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2016.

MALAYSIA BUILDING SOCIETY BERHAD
(Company No. 9417-K)
(Incorporated in Malaysia)
CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 SEPTEMBER 2017

	<----- Non Distributable ----->							Retained Profits	Total
	Ordinary Shares	Share Premium ^{#1}	Capital Reserve ^{#2}	Share Option Reserve	Warrants Reserve	Capital Redemption Reserve ^{#3}	Available-for-sale Reserve		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	2,838,551	1,392,980	17,838	5,210	3,633	12,486	1,566	589,276	4,861,540
Profit for the period	-	-	-	-	-	-	-	155,771	155,771
Other comprehensive income for the period	-	-	-	-	-	-	24,917	-	24,917
Total comprehensive income for the period	-	-	-	-	-	-	24,917	155,771	180,688
Dividends	-	-	-	-	-	-	-	(85,278)	(85,278)
Share options granted under ESOS recognised in profit or loss	-	-	-	2,059	-	-	-	-	2,059
Issue of ordinary shares pursuant to rights issue	2,899,387	(1,202,020)	-	-	-	-	-	-	1,697,367
Issuance of ordinary shares pursuant to exercise of DRP	50,169	7,525	-	-	-	-	-	-	57,694
Issuance of ordinary shares pursuant to exercise of ESOS	-	-	-	-	-	-	-	-	-
Issuance of ordinary shares pursuant to exercise of warrants	10,667	-	-	-	-	-	-	-	10,667
Transfer of share option reserve to retained profits upon expiry of share options	-	-	-	(349)	-	-	-	349	-
At 30 September 2016	5,798,774	198,485	17,838	6,920	3,633	12,486	26,483	660,118	6,724,737
At 1 January 2017	5,798,774	198,449	17,838	6,810	3,633	12,486	(19,810)	705,868	6,724,048
Profit for the period	-	-	-	-	-	-	-	293,144	293,144
Other comprehensive income for the period	-	-	-	-	-	-	18,272	-	18,272
Total comprehensive income for the period	-	-	-	-	-	-	18,272	293,144	311,416
Dividends	-	-	-	-	-	-	-	(173,963)	(173,963)
Share options granted under ESOS recognised in profit or loss	-	-	-	-	-	-	-	-	-
Issuance of ordinary shares pursuant to DRP	144,491	-	-	-	-	-	-	-	144,491
Issuance of ordinary shares pursuant to exercise of ESOS	13	-	-	(6)	-	-	-	-	7
Transfer of share option reserve to retained profits upon expiry of share options	-	-	-	(393)	-	-	-	393	-
At 30 September 2017	5,943,278	198,449	17,838	6,411	3,633	12,486	(1,538)	825,442	7,005,999

^{#1} Pursuant to subsection 618(3) and 618(4) of the Companies Act 2016 ("New Act"), the Group may exercise its right to use the credit amounts being transferred from share premium accounts within 24 months after the commencement of the New Act.

^{#2} Capital reserve arose out of the transfer of the Malaya Borneo Building Society Limited as at 29 February 1972 to the Company on 1 March 1972 via a Scheme of Arrangement and is not distributable as cash dividends.

^{#3} Capital redemption reserve arose out of the redemption of redeemable cumulative preference shares and is not distributable as cash dividends.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2016.

MALAYSIA BUILDING SOCIETY BERHAD
(Company No. 9417-K)
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CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2017

	30 September 2017 RM'000	30 September 2016 RM'000
Cash flows from operating activities		
Profit before taxation	372,437	187,535
Adjustments for:		
Depreciation of property, plant and equipment	8,821	10,427
Amortisation:		
- land use rights	15	19
- intangible assets	9,074	10,137
Loss on disposal of property, plant and equipment	10	37
Gain on disposal of foreclosed properties	(2,149)	-
Allowance for impairment of:		
- provision for doubtful debts	8	-
- unsecured advances in respect of certain projects	30,982	26,641
Allowance for impairment losses on loans, advances and financing (Reversal)/accruals made during the period	489,162 (1,939)	617,066 5,633
Interest/profit income adjustment on:		
- loans, advances and financing	(9,184)	19,044
- profit payable on financial investments AFS	(2,762)	(20,728)
- Sukuk - MBSB SC Murabahah	(31,017)	(46,146)
Operating profit before working capital changes	863,458	809,665
Increase in deposits with financial institutions with maturity of more than one month	(1,125,307)	(649,309)
Increase in loans, advances and financing	(788,788)	(1,293,697)
(Increase)/decrease in inventories	(46)	42
Decrease in trade receivables	30	548
(Increase)/decrease in other receivables	(27,375)	15,338
Increase in deposits from customers	2,530,505	2,874,029
Increase/(decrease) in trade payables	5	(34)
Increase/(decrease) in other payables	17,290	(3,100)
Cash generated from operations	1,469,772	1,753,482
Tax paid	(49,251)	(201,491)
Zakat paid	(2,953)	(3,607)
Net cash generated from operating activities	1,417,568	1,548,384

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MALAYSIA BUILDING SOCIETY BERHAD
(Company No. 9417-K)
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CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2017

	30 September 2017 RM'000	30 September 2016 RM'000
Cash flows from investing activities		
Purchase of property, plant and equipment	(27,294)	(11,515)
Purchase of intangible assets	(5,428)	(215)
Proceeds from disposal of property, plant and equipment	22	32
Proceeds from disposal of foreclosed properties	2,615	-
Increase in financial investments available-for-sale	(657,866)	(978,863)
Net cash used in investing activities	(687,951)	(990,561)
Cash flows from financing activities		
Repayment of bank borrowings	(575,275)	(1,145,375)
Repayment of other borrowings	-	(50,181)
Repayment of from recourse obligation on loans/financing sold	(495,838)	(95,591)
Repayment of Sukuk - MBSB SC Murabahah	(36,997)	46,365
Dividend paid - ordinary shares	(173,963)	(85,278)
Net proceeds from issuance of ordinary shares	144,504	1,765,728
Net cash (used in)/generated from financing activities	(1,137,569)	435,668
Net decrease in cash and cash equivalents	(407,952)	993,491
Cash and cash equivalents at beginning of financial period	6,639,369	6,928,263
Cash and cash equivalents at end of financial period	6,231,417	7,921,754
Cash and cash equivalents comprise :		
Cash and short term funds	6,231,417	7,921,754

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2016.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

PART A: EXPLANATORY NOTES PURSUANT TO MFRS134

A1. Basis of Preparation

The unaudited condensed interim financial statements for the financial quarter ended 30 September 2017 have been prepared under the historical cost convention except for financial investments available-for-sale which are recognised at fair value and the following financial assets and financial liabilities which are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest/profit method: loans and financing, trade and other payables, bank borrowings and recourse obligations on financing/loans sold.

The unaudited condensed interim financial statements have been prepared in accordance with MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and Chapter 9, Part K of the Listing Requirements of Bursa Malaysia Securities Berhad. The unaudited interim financial statements should be read in conjunction with the audited annual financial statements of the Group for the financial year ended 31 December 2016. 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 ended 31 December 2016.

The unaudited interim financial statements incorporated those activities relating to the Islamic banking business which have been undertaken by the Group. Islamic banking business refers generally to the acceptance of deposits and granting of financing under the principles of Shariah. The significant accounting policies and methods of computation applied in the unaudited interim financial statements are consistent with those adopted in the most recent annual financial statements for the financial year ended 31 December 2016.

On 1 January 2017, where applicable, the Group adopted the following MFRSs, Amendments to MFRSs, Issues Committee (“IC”) Interpretations and Technical Release (“TR”) mandatory for annual financial periods beginning on or after 1 January 2017:

Effective for annual periods commencing on or after 1 January 2017

- Amendments to MFRS 5: Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements to MFRSs 2012 – 2014 Cycle)
- Amendments to MFRS 7: Financial Instruments: Disclosures (Annual Improvements to MFRSs 2012 – 2014 Cycle)
- Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception
- Amendments to MFRS 11: Accounting for Acquisitions of Interest in Joint Operations
- MFRS 14 Regulatory Deferral Accounts
- Amendments to MFRS 101: Disclosure Initiatives
- Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants
- Amendments to MFRS 119: Employee Benefits (Annual Improvements to MFRSs 2012 – 2013 Cycle)
- Amendments to MFRS 127: Equity Method in Separate Financial Statements
- Amendments to MFRS 134: Interim Financial Reporting (Annual Improvements to MFRSs 2012 – 2014 Cycle)

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A1. Basis of Preparation (continued)

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

Effective for annual periods commencing on or after 1 January 2017

- Amendments to MFRS 12 Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Disclosure Initiative (Amendments to MFRS 107)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)

Effective for annual periods commencing on or after 1 January 2018 (Early adoption)

- MFRS 1 first-time Adoption of Malaysian Financial Reporting Standards
- Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)
- MFRS 9 Financial Instruments (2014)
- MFRS 15 Revenue from Contracts with Customers
- Clarifications to MFRS 15 Revenue from Contracts with Customers
- Amendments to MFRS 128 Investments in Associates & Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Transfer of Investment Property (Amendments to MFRS 140)

Effective for annual periods commencing on or after 1 January 2019

- MFRS 16 Leases

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

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

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A2. Audit Report of Preceding Financial Year Ended 31 December 2016

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.

A6. Debts and Equity Securities

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 '000	Ordinary shares RM'000	Share premium RM'000
At 1 January 2017	5,798,774	5,798,774	198,449
Issued at RM1.02 per share pursuant to ESOS	7	13	-
Dividend Re-Investment Plan ("DRP")	125,644	144,491	-
At 30 September 2017	5,924,425	5,943,278	198,449

A7. Dividend Paid

No dividends were paid during the current financial quarter.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

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

	30-09-17	31-12-16
	RM'000	RM'000
Personal financing	22,576,939	22,822,210
Mortgage loans and property financing	5,545,978	5,479,796
Corporate loans and financing	7,621,774	6,599,879
Auto Financing	295,691	334,524
Staff loans	45,088	48,205
Gross loans, advances and financing	<u>36,085,471</u>	<u>35,284,614</u>
Allowance for impairment:		
- Collectively assessed	(3,290,394)	(2,809,131)
- Individually assessed	<u>(292,790)</u>	<u>(282,005)</u>
Net loans, advances and financing	<u>32,502,287</u>	<u>32,193,478</u>

(ii) By maturity structure

	30-09-17	31-12-16
	RM'000	RM'000
Maturing within one year	921,539	843,533
One year to three years	1,890,531	1,410,298
Three years to five years	2,349,337	1,788,154
Over five years	<u>30,924,064</u>	<u>31,242,629</u>
	<u>36,085,471</u>	<u>35,284,614</u>

(iii) By economic purpose

	30-09-17	31-12-16
	RM'000	RM'000
Purchase of residential properties	5,252,673	5,194,235
Purchase of non-residential properties	314,339	309,683
Personal use	22,598,355	22,844,358
Property development	4,232,971	3,548,614
Working capital	2,754,640	2,402,615
Purchase of transport vehicles	298,328	336,457
Others	634,165	648,652
	<u>36,085,471</u>	<u>35,284,614</u>

(iv) By type of customers

	30-09-17	31-12-16
	RM'000	RM'000
Domestic business enterprises:		
- Small medium enterprises	2,714,254	3,734,289
- Others	5,027,263	2,976,192
Individuals	<u>28,343,954</u>	<u>28,574,133</u>
	<u>36,085,471</u>	<u>35,284,614</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A8. Loans, Advances and Financing (continued)**(v) By interest/profit rate sensitivity**

	30-09-17	31-12-16
	RM'000	RM'000
Fixed rate:		
- Personal financing	21,967,066	22,631,668
- Auto financing	298,328	336,457
- Mortgage and property financing	754,203	802,211
- Bridging, structured and term loans and financing	1,310,902	921,733
Variable rate:		
- Personal financing	631,289	212,690
- Mortgage and property financing	4,812,809	4,701,707
- Bridging, structured and term loans and financing	6,310,874	5,678,148
	<u>36,085,471</u>	<u>35,284,614</u>

(vi) Movements in impaired loans, advances and financing

	30-09-17	31-12-16
	RM'000	RM'000
Balance as at 1 January	2,829,626	2,519,633
Classified as impaired during the period	1,580,442	2,353,095
Reclassified as non-impaired	(1,059,096)	(1,974,478)
Amount recovered	(88,562)	(68,610)
Amount (written off)/written back	249	(14)
Balance as at end of period	<u>3,262,659</u>	<u>2,829,626</u>
Collective allowance	(1,992,847)	(1,700,602)
Individual allowance	(241,955)	(205,951)
Allowance for impairment	<u>(2,234,802)</u>	<u>(1,906,553)</u>
Net impaired loans, advances and financing	<u>1,027,857</u>	<u>923,073</u>
Net impaired loans as per percentage of net loans, advances and financing	<u>3.2%</u>	<u>2.9%</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A8. Loans, Advances and Financing (continued)

	30-09-17	31-12-16
	RM'000	RM'000
Collective Impairment		
Opening balance	2,809,131	2,045,943
Impairment during the period	481,263	763,188
Closing balance	<u>3,290,394</u>	<u>2,809,131</u>
As a % of gross loans, advances and financing less individual allowance	9.2%	8.0%
Individual Impairment		
Opening balance	282,005	277,916
Impairment during the period	10,785	4,103
Written off	-	(14)
Closing balance	<u>292,790</u>	<u>282,005</u>

A9. Financial investments available-for-sale

	30-09-17	31-12-16
	RM'000	RM'000
At Fair Value		
Money Market Instruments:		
- Malaysian Government Investment Issues	<u>1,142,311</u>	<u>972,180</u>
	<u>1,142,311</u>	<u>972,180</u>
Debt Securities:		
- Private and Islamic debt securities	597,388	181,242
- Government Guaranteed debt securities	<u>1,303,951</u>	<u>1,211,328</u>
	<u>1,901,339</u>	<u>1,392,570</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A10. Deposits from customers

	30-09-17	31-12-16
	RM'000	RM'000
By type of products:		
- Savings	101,163	97,444
- Fixed deposits	33,040,666	30,513,880
	<u>33,141,829</u>	<u>30,611,324</u>
By type of customers:		
- Government and statutory bodies	14,737,099	12,690,543
- Business enterprises	15,615,710	15,435,413
- Individuals	2,789,020	2,485,368
	<u>33,141,829</u>	<u>30,611,324</u>
Maturity of deposits from customers:		
- Within one year	30,996,880	28,639,144
- More than one year	2,144,949	1,972,180
	<u>33,141,829</u>	<u>30,611,324</u>

A11. Interest Income

	3rd quarter ended		9 months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Loans, advances and financing	84,127	100,551	271,742	304,814
Deposits and placements with banks and other financial institutions	28,737	15,538	86,293	28,490
	<u>112,864</u>	<u>116,089</u>	<u>358,035</u>	<u>333,304</u>

A12. Interest Expenses

	3rd quarter ended		9 months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Bank borrowings	260	207	833	2,739
Deposits from customers	29,915	63,317	148,736	189,857
	<u>30,175</u>	<u>63,524</u>	<u>149,569</u>	<u>192,596</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A13. Net Income from Islamic Banking Operations

	3rd quarter ended		9 months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Financing	561,353	569,210	1,669,016	1,682,286
Profit income from				
Sukuk Commodity Murabahah	30,437	33,418	92,112	100,147
Profit on financial investments	30,392	22,840	84,940	44,620
Deposits placements	41,693	45,715	117,494	159,159
Profit on subsidiaries	1,560	-	4,275	-
Less: Income attributable to depositors	(281,417)	(247,872)	(775,694)	(759,555)
Less: Income attributable to securitisation	(21,623)	(31,241)	(74,125)	(95,627)
Less: Income attributable to sukuk	(81,353)	(91,859)	(250,247)	(281,271)
	<u>281,042</u>	<u>300,211</u>	<u>867,771</u>	<u>849,759</u>

A14. Net Other Income

	3rd quarter ended		9 months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Rental income	42	39	139	117
Revenue from hotel operations	1,831	1,528	4,848	4,511
Loan processing fees	1,633	4,629	8,622	20,251
Insurance commission	942	484	3,413	940
Loan facility fees	994	688	3,828	3,496
Legal notice fees	-	327	49	1,125
Sundry income	1,922	1,102	4,312	10,112
Gain/(loss) from disposal of:				
- Property, plant and equipment	-	(25)	(10)	(37)
- Foreclosed properties	186	-	2,149	-
	<u>7,550</u>	<u>8,772</u>	<u>27,350</u>	<u>40,515</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A15. Other Operating Expenses

	3rd quarter ended		9 months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Personnel expenses:				
- Wages and salaries	32,834	29,750	95,870	89,804
- Social security costs	250	237	739	649
- Pension costs	5,307	4,815	15,420	14,293
- Mutual separation scheme	-	-	-	1,644
- Other staff related expenses	3,312	1,960	7,839	6,022
	41,703	38,821	119,868	114,471
Establishment related expenses	3,547	3,741	10,700	11,078
Promotion and marketing related expenses	1,764	1,528	4,407	9,486
General administrative expenses	38,222	33,759	107,013	100,008
	<u>85,236</u>	<u>77,849</u>	<u>241,988</u>	<u>235,043</u>

A16. Allowance for Impairment Losses on Loans, Advances and Financing

	3rd quarter ended		9 months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Allowance for/(write back of) impairment on loans, advances and financing:				
- Collective impairment	150,062	194,452	481,263	598,530
- Individual impairment	3,976	10,591	10,785	2,415
- Written off	2,622	4,940	6,125	8,662
- Written back	(653)	-	(9,011)	(1,203)
	<u>156,007</u>	<u>209,983</u>	<u>489,162</u>	<u>608,404</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A17. Commitments and Contingencies

	30-09-17	31-12-16
	RM'000	RM'000
(i) Operational Commitments		
Loan commitments not yet recognised in the financial statements:		
- Mortgage loans	65,801	115,127
- Properties financing	149,944	166,194
- Personal financing	1,057	230
- Auto financing	253	253
- Bridging, structured and term loans and financing	5,815,179	4,019,883
- Performance bond	45,271	25,216
- Financial guarantees	230,056	282,098
	<u>6,307,561</u>	<u>4,609,001</u>
Approved and contracted for property development	<u>421,528</u>	<u>421,528</u>
Total	<u>6,729,089</u>	<u>5,030,529</u>
(ii) Capital Commitments		
Property, plant and equipment:		
- Approved and contracted for	140,501	165,914
- Approved but not contracted for	1,229	-
	<u>141,730</u>	<u>165,914</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.

A18. Unsecured Contingent Liabilities

- (i) Bongsor Bina Sdn Bhd ("BBSB"), 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. BBSB's appeal to the Court of Appeal was allowed while the Company filed an application for leave to appeal to the Federal Court. The Federal Court vacated the hearing scheduled for 11 May 2017 and adjourned the same to 31 May 2017.

On 31 May 2017, the Company's motion for leave to appeal to Federal Court was allowed with costs. This matter is now fixed for case management on 9 November 2017 for our solicitors to update the Federal Court on the status of filing a supplementary record of appeal. On 9 November 2017, the Deputy Registrar had fixed this matter for the next Case Management on 4 January 2018 as this matter is still pending extraction of the sealed order from the Court of Appeal.

The directors after obtaining advice from the Company's solicitors are of the opinion that the Company has reasonably good case in respect of the claim against the Company.

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A18. Unsecured Contingent Liabilities (continued)

- (ii) KCSB Konsortium Sdn Bhd and Kausar Corporation Sdn Bhd (collectively referred to as “the Plaintiffs/the Appellant”) 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 filed an appeal to the Court of Appeal against the decision and the matter was fixed for Case Management on 9 October 2015 and thereafter on 4 March 2016 pending release of the grounds of judgment from the High Court. The matter was then fixed for Hearing on 17 August 2016 but was adjourned to 28 September 2016 where the hearing was then fixed for 1 November 2016. On 1 November 2016, the Court of Appeal allowed the appeal with no order as to costs and sent the matter back to the High Court for retrial before a different Judge as they were of the view that the Grounds of Judgment were wholly inadequate and in the circumstances they could not be certain as to the basis on which the decision was reached.

The High Court fixed the matter for full trial on 11, 12 and 15 September 2017. The parties filed Striking Out Applications on 18 July 2017 and both applications were heard on 8 September 2017 and the Judge found that both Plaintiff and Defendant were time barred and struck out both the claims.

Both the Plaintiffs and Defendants have filed their respective appeals to the Court of Appeal against the decision of the High Court dated 8 September 2017. The matter came up for Case Management on 14 November 2017 and has been fixed for further Case Management on 19 December 2017 pending filing of the Record of Appeal.

The directors after obtaining advice from the Company’s solicitors are of the opinion that the Company has reasonably fair chance in respect of the civil suit against the Company and its subsidiary.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A19. Segmental Information on Revenue and Results

	Financing	Hotel	Eliminations	Consolidated
	RM'000	Operations	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000
3 months ended 30 September 2017				
External sales	818,589	1,831	(3,552)	816,868
Intersegment transactions	3,730	952	(4,682)	-
Total revenue	822,319	2,783	(8,234)	816,868
Segment results	111,488	(5,726)	24,276	130,038
Unallocated income (net of cost)				-
Profit from operations				130,038
Segment assets	51,719,213	67,287	(6,834,640)	44,951,860
Unallocated corporate assets				-
Consolidated total assets				44,951,860
Segment liabilities	45,320,197	185,685	(7,560,021)	37,945,861
Unallocated corporate liabilities				-
Consolidated total liabilities				37,945,861
	Financing	Hotel	Eliminations	Consolidated
	RM'000	Operations	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000
3 months ended 30 September 2016				
External sales	826,582	1,528	2,143	830,253
Intersegment transactions	8,866	911	(9,777)	-
Total revenue	835,448	2,439	(7,634)	830,253
Segment results	60,648	(4,268)	17,336	73,716
Unallocated income (net of cost)				-
Profit from operations				73,716
Segment assets	51,883,399	70,327	(7,425,313)	44,528,413
Unallocated corporate assets				-
Consolidated total assets				44,528,413
Segment liabilities	45,673,674	170,788	(8,040,786)	37,803,676
Unallocated corporate liabilities				-
Consolidated total liabilities				37,803,676

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A19. Segmental Information on Revenue and Results (continued)

	Financing	Hotel	Eliminations	Consolidated
	RM'000	Operations	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000
9 months ended 30 September 2017				
External sales	2,447,162	4,848	(10,521)	2,441,489
Intersegment transactions	10,669	2,778	(13,447)	-
Total revenue	2,457,831	7,626	(23,968)	2,441,489
Segment results	302,405	(14,327)	84,359	372,437
Unallocated income (net of cost)				-
Profit from operations				372,437
Segment assets	51,719,213	67,287	(6,834,640)	44,951,860
Unallocated corporate assets				-
Consolidated total assets				44,951,860
Segment liabilities	45,320,197	185,685	(7,560,021)	37,945,861
Unallocated corporate liabilities				-
Consolidated total liabilities				37,945,861

	Financing	Hotel	Eliminations	Consolidated
	RM'000	Operations	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000
9 months ended 30 September 2016				
External sales	2,443,977	4,511	6,905	2,455,393
Intersegment transactions	25,770	2,575	(28,345)	-
Total revenue	2,469,747	7,086	(21,440)	2,455,393
Segment results	149,074	(12,470)	50,931	187,535
Unallocated income (net of cost)				-
Profit from operations				187,535
Segment assets	51,883,399	70,327	(7,425,313)	44,528,413
Unallocated corporate assets				-
Consolidated total assets				44,528,413
Segment liabilities	45,673,674	170,788	(8,040,786)	37,803,676
Unallocated corporate liabilities				-
Consolidated total liabilities				37,803,676

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

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A20. Valuation of Property, Plant and Equipment

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

A21. Subsequent Events

None.

A22. Changes in the Composition of the Group

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

A23. Acquisition/Disposal of Property, Plant and Equipment

	As at 30-09-17 RM'000
Additions	
Building in progress	25,414
Building renovation	199
Furniture & equipment	286
Data processing equipment	1,395
	<u>27,294</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A24. Significant Related Party Transactions

	30 September	
	2017	2016
	RM'000	RM'000
(i) Transactions with Employees Provident Fund Board, the ultimate holding body:		
Expenses		
Interest on loans	-	850
Rental expense	214	210
Balances		
Other borrowings	-	-
Sukuk - MBSB SC Murabahah	1,127,179	1,153,030
(ii) Transactions with RHB Banking Group of companies, being companies directly controlled by EPF:		
Balances		
Deposits and placements with financial institutions	1,505,450	1,862,486
Deposits from customers	-	186,409
Bank borrowings	-	150,075
Recourse obligation on loans sold to Cagamas Berhad	-	832,623
(iii) Collectively, but not individually, significant balances		
Balances		
Deposit from customers	156,288	584,369

A25. Impairment Loss

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

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A26. Operations of Islamic Banking**A26a. Unaudited Consolidated Statements of Financial Position as at 30 September 2017**

	Note	30-Sep-17 RM'000	31-Dec-16 RM'000
Assets			
Cash and short-term funds		5,521,109	4,398,300
Deposits and placements with financial institutions		1,008,146	763,329
Financing	A26c	28,768,664	28,106,938
Other receivables		1,003,535	262,532
Financing to subsidiaries		-	-
Financial investment available-for-sale		3,043,650	2,364,750
Total assets		<u>39,345,104</u>	<u>35,895,849</u>
Liabilities			
Deposits from customers	A26d	30,351,061	24,149,761
Other payables		326,260	4,337,318
Bank borrowings		-	400,211
Financing sold to Cagamas Berhad		930,518	1,385,248
Sukuk - MBSB SC Murabahah		2,547,793	2,615,807
Provision for taxation		45,454	81,398
Provision for zakat		1,699	4,780
Total liabilities		<u>34,202,785</u>	<u>32,974,523</u>
Islamic fund		4,000	4,000
Financial investment available-for-sale		(1,539)	(19,810)
Retained profits		3,139,858	2,937,136
		<u>3,142,319</u>	<u>2,921,326</u>
Total liabilities and Islamic fund		<u>37,345,104</u>	<u>35,895,849</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A26b. Unaudited Consolidated Statements of Comprehensive Income for the Year Ended 30 September 2017

	3rd quarter ended		9 months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of general investment deposits and Islamic capital funds	665,435	671,183	1,967,837	1,986,212
Less: Income attributable to depositors	(281,417)	(247,872)	(775,694)	(759,555)
Less: Income attributable to securitisation	(21,623)	(31,241)	(74,125)	(95,627)
Less: Income attributable to sukuk	(81,353)	(91,859)	(250,247)	(281,271)
Net income from financing operations	281,042	300,211	867,771	849,759
Other income	3,727	10,765	16,915	37,113
Other expenses	(81,104)	(46,285)	(191,191)	(137,556)
Allowance for losses on financing	(156,044)	(169,205)	(441,637)	(437,453)
Profit before taxation and zakat	47,621	95,486	251,858	311,863
Taxation	(7,858)	(17,314)	(49,266)	(55,224)
Zakat	-	-	129	2,463
Profit after taxation and zakat	39,763	78,172	202,721	259,102
Other comprehensive income	1,129	-	18,272	-
Total comprehensive income for the period	<u>40,892</u>	<u>78,172</u>	<u>220,993</u>	<u>259,102</u>

A26c. Financing

(i) By type	30-09-17	31-12-16
	RM'000	RM'000
Term financing:		
- Corporate financing	11,518,445	9,625,862
- Property financing	6,650,291	5,936,416
- Personal financing	34,267,259	35,398,821
- Auto financing	318,033	359,625
Staff financing	19,401	19,960
Less: Unearned income	(21,696,793)	(21,362,958)
Gross loans, advances and financing	<u>31,076,636</u>	<u>29,977,726</u>
Allowance for impairment:		
- Collectively assessed	(2,307,537)	(1,870,623)
- Individually assessed	(435)	(165)
Net financing	<u>28,768,664</u>	<u>28,106,938</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A26c. Financing (continued)**(ii) By contract**

	30-09-17	31-12-16
	RM'000	RM'000
Bai Bithaman Ajil (deferred payment sale)	2,296,601	2,080,179
Bai Al-Inah (cost plus)	13,201,052	13,640,302
Tawarruq	9,676,379	9,513,046
Contract financing	5,902,604	4,744,199
	<u>31,076,636</u>	<u>29,977,726</u>

(iii) Impaired financing

	30-09-17	31-12-16
	RM'000	RM'000
Balance as at 1 January	1,657,995	1,426,173
Classified as impaired during the year	328,471	1,428,996
Reclassified as non-impaired during the year	(169,400)	(1,183,101)
Amount recovered	(4,283)	(14,073)
Balance as at 31 December	<u>1,812,783</u>	<u>1,657,995</u>
Collective allowance	(1,389,370)	(1,139,713)
Individual allowance	(436)	(165)
Allowance for impairment	<u>(1,389,806)</u>	<u>(1,139,878)</u>
Net impaired financing	<u>422,977</u>	<u>518,117</u>
Net impaired financing as a percentage of net financing	<u>1.5%</u>	<u>1.8%</u>

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

	30-09-17	31-12-16
	RM'000	RM'000
Collective impairment		
Balance as at 1 January	1,870,623	1,323,066
Impairment during the year	436,914	547,557
Balance as at 31 March	<u>2,307,537</u>	<u>1,870,623</u>
Individual impairment		
Balance as at 1 January	165	-
Impairment during the year	270	165
Balance as at 31 March	<u>435</u>	<u>165</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

A26d. Deposits from Customers**(i) By type of deposits**

	30-09-17	31-12-16
	RM'000	RM'000
Al-Wadiah savings account	56,936	51,895
Mudharabah fund	30,294,125	24,097,866
	<u>30,351,061</u>	<u>24,149,761</u>

(ii) By type of customer

	30-09-17	31-12-16
	RM'000	RM'000
Business enterprises	28,972,350	23,545,255
Individuals	1,378,711	604,506
	<u>30,351,061</u>	<u>24,149,761</u>

(iii) By maturity of deposits from customers

	30-09-17	31-12-16
	RM'000	RM'000
Within one year	28,820,570	23,205,596
More than one year	1,530,491	944,165
	<u>30,351,061</u>	<u>24,149,761</u>

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PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. Performance Review

Current Year-to-Date vs Previous Year-to-Date

	Individual Period		Changes		Cumulative Period		Changes	
	(3rd quarter)		(Amount/%)				(Amount/%)	
	Current Year	Preceding Year			Current Year	Preceding Year		
	Quarter	Corresponding			To-date	Corresponding		
30/09/2017	Quarter	Period			Period			
	30/09/2016			30/09/2017	30/09/2016			
Revenue	816,868	830,253	(13,385)	-1.61%	2,441,489	2,455,393	(13,904)	-0.57%
Other operating expenses	(85,236)	(77,849)	(7,387)	9.49%	(241,988)	(235,043)	(6,945)	2.95%
Operating Profit	286,045	283,699	2,346	0.83%	861,599	795,939	65,660	8.25%
Allowances for impairment losses on loans, advances and financing	(156,007)	(209,983)	53,976	-25.70%	(489,162)	(608,404)	119,242	-19.60%
Profit Before Tax	130,038	73,716	56,322	76.40%	372,437	187,535	184,902	98.60%
Profit After Tax	100,736	57,927	42,809	73.90%	293,144	155,771	137,373	88.19%
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	100,736	57,927	42,809	73.90%	293,144	155,771	137,373	88.19%

Group revenue for the 9 months ended 30 September 2017 of RM2.441 billion is at par with the revenue recorded for the previous year corresponding period. Group profit before tax for the financial period ended 30 September 2017 of RM372.437 million increased by RM184.902 million or 98.60% as compared to the previous year corresponding period profit before tax of RM187.535 million. The increase was mainly due to higher net operating income and lower allowances for impairment losses on loans, advances and financing. Net profit attributable to ordinary equity holders grew by RM137.373 million or 88.19% over the same period to RM293.144 million.

The Group cost to income ratio improved from the previous year corresponding period standing of 22.8% to currently stand at 21.9%. Total personnel expenses for the financial period ended 30 September 2017 of RM119.87 million were higher by RM5.40 million or 4.50% as compared to the previous year corresponding period mainly due to higher wages and salaries expenses as total number of staff increased from 1,526 to 1,586. Finance costs for the financial period ended 30 September 2017 of RM149.57 million were lower by RM43.03 million or 22.34% as compared to the previous year corresponding period mainly due to lower cost of deposits.

The Group embarked on a "Closing the Gaps" exercise since 2010 to bridge its frameworks to be in line with banking standards and best practices. The impairment programme, which is in line with the recommendation by Bank Negara Malaysia, is in addition to the existing impairment provision that is in compliance with current accounting standards. The Group financing and loan loss coverage ratio increased to 109.82% for the financial period ended 30 September 2017 from 107.09% recorded over the same period last year.

The Group's gross loans and financing grew by RM800.857 million or 2.27% to RM36.085 billion as at 30 September 2017 as compared to RM35.285 billion as at 31 December 2016. This was mainly driven by growth in corporate loans and financing, partially set off by contraction in the retail segment. Fair value of financial investments available-for-sale increased by RM678.900 million as compared to 31 December 2016 position due to improved yields from favourable market sentiments.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

Current Year-to-Date vs Previous Year-to-Date (continued)

Total deposits from customers increased by RM2.531 billion or 8.27% to stand at RM33.142 billion as at 30 September 2017.

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

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

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

Property financing and mortgage loans – The gross income from property financing was higher in the current period compared to the previous corresponding period due to growth in its financing assets base. This was partly set off by lower income from mortgage loans as its assets base decrease due to declining disbursements.

Auto financing – The gross income from auto financing was lower compared to the previous year corresponding period due to lower disbursements and decreasing portfolio base.

Current Quarter vs Previous Year Corresponding Quarter

The Group registered a profit before tax of RM130.038 million, an improvement of RM56.322 million of 76.40% compared to the previous year corresponding quarter. The improved profit before tax was mainly due to higher operating profit and lower allowances for impairment losses on loans, advances and financing. Net profit attributable to ordinary equity holders grew by RM42.809 million or 73.90% over the same period to RM100.736 million.

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:

- 1) Personal financing – The gross income from personal financing in the current quarter was lower compared to the previous year corresponding period due to lower disbursements and decreasing portfolio base.
- 2) Corporate loans and financing – The gross income from corporate loans and financing in the current quarter was higher compared to the previous year corresponding quarter due to the continued growth of corporate loans and financing assets base.
- 3) Property financing and mortgage loans – The gross income from property financing was higher in the current quarter compared to the previous corresponding quarter due to growth in its financing assets base. This was partly set off by lower income from mortgage loans as its assets base decrease due to declining disbursements.
- 4) Auto financing – The gross income from auto financing in the current quarter was lower compared to the previous year corresponding quarter due to lower disbursements and decreasing portfolio base.

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EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 2017

B2. Variation of Results against Preceding Quarter

	Current Quarter	Immediate	Changes	
		Preceding Quarter	(Amount/%)	
	30/09/2017	30/06/2017		
Revenue	816,868	813,417	3,451	0.42%
Operating Profit	286,045	280,862	5,183	1.85%
Allowances for impairment losses on loans, advances and financing	(156,007)	(165,234)	9,227	-5.58%
Profit Before Tax	130,038	115,628	14,410	12.46%
Profit After Tax	100,736	91,084	9,652	10.60%
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	100,736	91,084	9,652	10.60%

The Group profit before tax for the 3rd quarter 2017 of RM130.038 million increased by RM14.410 million as compared to the preceding quarter profit before tax of RM115.628 million. The increase was mainly due to higher net operating income and higher other operating expenses in the current quarter.

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

The Malaysian economy recorded a stronger growth of 5.8% in the second quarter of 2017 (1Q 2017: 5.6%). Private sector spending continued to be the main driver of growth. On the external front, growth was further supported by the robust expansion in real exports of goods and services (9.6%; 1Q 2017: 9.8%) following strong demand for manufactured and commodity products. Real imports moderated slightly to 10.7% (1Q 2017: 12.9%) following more moderate expansion in investment. On a quarter-on-quarter seasonally adjusted basis, the economy recorded a growth of 1.3% (1Q 2017: 1.8%).

Domestic demand grew by 5.7% in the second quarter of the year (1Q 2017: 7.7%), supported by continued expansion in both private sector expenditure (7.2%; 1Q 2017: 8.2%) and public sector spending (0.2%; 1Q 2017: 5.8%). Private consumption recorded a growth of 7.1% (1Q 2017: 6.6%), supported by the improvement in private sector wages amid continued strength in employment growth. During the quarter, consumer sentiments continued to improve, providing further impetus to household spending.

Public consumption growth moderated to 3.3% (1Q 2017: 7.5%) following slower growth in the spending on emoluments, and supplies and services. Public investment declined by 5.0% in the second quarter (1Q 2017: 3.2%). This was attributable to the lower spending on fixed assets by public corporations, which more than offset the higher expenditure by the Federal Government.

(Source: Extracted from the latest BNM Quarterly Bulletin - Developments in the Malaysian Economy, Second Quarter 2017)

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B3. Prospects (continued)***Banking system remained strong***

The banking system remained strong and was well-capitalised during the second quarter of 2017. As at end-June 2017, the common equity tier 1 capital ratio; tier 1 capital ratio; and the total capital ratio stood at 12.9%, 13.8% and 17%, respectively (end-June 2016:13.4%;14.3%; 16.8%). The banking sector recorded a pre-tax profit of RM9.2 billion due to higher dividend income from subsidiaries and net interest income from financing activities. The quality of loans in the banking system remained stable with the net impaired loans ratio stood at 1.2% as at end-June 2017 (end-June 2016: 1.2%).

(Source: Extracted from the latest Quarterly Update on the Malaysian Economy – Second Quarter 2017, Ministry of Finance)

Overall liquidity conditions remained sufficient for financial intermediation

In the banking system, liquidity conditions remained sufficient at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM moderated slightly, reflecting the lower use of liquidity injection operations amid net inflows during the quarter. At the institutional level, most banks continued to maintain surplus liquidity positions.

The growth of net financing increased to 7.0% in the second quarter of 2017 (1Q 2017: 6.8%), mainly reflecting the improvement in the growth of net outstanding issuances of corporate bonds (2Q 2017: 11.8%; 1Q 2017: 9.8%) amid a moderation in the growth of loans extended by the banking system and development financial institutions (DFIs) (2Q 2017: 5.6%; 1Q 2017: 6.0%).

The growth of outstanding business loans extended by the banking system and DFIs moderated to 6.6% (1Q 2017: 7.1%) during the quarter. Loans to SMEs recorded an annual growth of 7.0% (1Q 2017:9.3%), with the level of loan disbursed sustained at RM69.3 billion (1Q 2017: RM71.8 billion). The growth of outstanding household loans extended by the banking system and DFIs continued to moderate to 5.1% (1Q 2017: 5.4%), mainly reflecting the moderation in loans for the purchase of non-residential property; purchase of residential property and personal financing.

(Source: Extracted from the latest BNM, Quarterly Bulletin - Monetary and Financial Developments in the Malaysian Economy, Second Quarter 2017)

Group Prospects

The Group will focus on continued expansion of corporate business segment as it has shown positive contribution for the nine (9) months period in 2017, in terms of growth in corporate portfolio assets and earnings. The Group will continue to strengthen, adapt and sustain its corporate and retail business activities to compete in the challenging environment. These activities include collection efforts, continued improvement in compliant operational workflows, efficient workflows, enhancing assets quality based on risk management and credit frameworks and improving data management with business analytics.

In respect of the proposed acquisition of 100% equity interest in Asian Finance Bank Berhad, the Group has started pre-integration activities to ensure smooth integration of operations after completion of the proposed acquisition. Barring any unforeseen circumstances, the Group expects its performance for 2017 to be satisfactory.

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B4. Variance from Profit Forecast and Profit Guarantee

None.

B5. Taxation

	3rd quarter ended		9 months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Current income tax:				
- Malaysian income tax	31,092	(78,655)	82,819	38,408
Over provision in prior years:				
- Malaysian income tax	-	(144,473)	-	(144,473)
	<u>31,092</u>	<u>(223,128)</u>	<u>82,819</u>	<u>(106,065)</u>
Deferred tax:				
- Relating to origination and reversal of temporary differences	(1,790)	238,917	(3,397)	140,292
	<u>(1,790)</u>	<u>238,917</u>	<u>(3,397)</u>	<u>140,292</u>
Total income tax expense	<u>29,302</u>	<u>15,789</u>	<u>79,422</u>	<u>34,227</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the quarter.

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, except for debt securities as disclosed in Note A9.

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B8. Status of Corporate Proposals**Proposed Merger**

Corporate Proposal	Status
<p>The Company had, on 21 December 2016, received a letter from Bank Negara Malaysia (“BNM”) dated 21 December 2016 which states that BNM has no objection in principle for the Company to commence negotiations with the existing shareholders of Asian Finance Bank Berhad (“AFB”) namely Qatar Islamic Bank, RUSD Investment Bank Inc, Tadamon International Islamic Bank and Financial Assets Bahrain WLL for a proposed merger of the Company and AFB (“the Proposed Merger”). BNM requires that the negotiations be completed within six months from the date of BNM’s letter.</p>	<ul style="list-style-type: none"> • On 19 June 2017, the Company submitted an application to BNM within the stipulated timeframe, to seek the approvals of BNM and/ or the Ministry of Finance, Malaysia for the Proposed Merger. • On 18 August 2017, the Company received notification from BNM vide its letter dated 18 August 2017 that the Minister of Finance has granted approval for the proposed acquisition by MBSB of 100% interest in the shares of AFB pursuant to the Islamic Financial Services Act 2013. • On 6 November 2017, the Company has entered into a conditional share purchase agreement with the shareholders of AFB, namely Qatar Islamic Bank, Financial Assets Bahrain W.L.L, RUSD Investment Bank Inc and Tadamon International Islamic Bank (collectively, the “Vendors”), for the proposed acquisition by MBSB of the entire equity interest in AFB from the Vendors for an aggregate purchase consideration of RM644,952,807.66 (“Purchase Consideration”) (“Proposed Acquisition”). The Purchase Consideration will be satisfied through a combination of cash amounting to RM396,894,036.26 and the issuance of 225,507,974 new ordinary shares in MBSB (“Consideration Share(s)”) at an issue price of RM1.10 per Consideration Share. • The Proposed Acquisition expected to be completed in the 1st quarter of 2018 is now pending approvals from relevant authorities and shareholders of the Company.

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B9. Borrowings and Debts

Borrowings of the Group were as follows:

	As at 3rd quarter period ended 30 September 2017		
	Long term	Short term	Total borrowings
	RM	RM	RM
	denomination	denomination	denomination
Secured			
Recourse obligation on loans/financing sold	545,532	1,378,805	1,924,337
Unsecured			
Bank borrowings	-	-	-

	As at 4th quarter period ended 31 December 2016		
	Long term	Short term	Total borrowings
	RM	RM	RM
	denomination	denomination	denomination
Secured			
Recourse obligation on loans/financing sold	983,476	1,436,699	2,420,175
Unsecured			
Bank borrowings	-	575,275	575,275

B10. Off Balance Sheet Financial Instruments

None.

B11. Realised and Unrealised Profits and Losses

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

	Cumulative	
	As at 30-09-17 RM'000	As at 31-12-16 RM'000
Total accumulated profits of the Group:		
- Realised	1,021,369	901,795
- Unrealised in respect of deferred tax recognised in the income statement	30,652	30,652
Total Group accumulated profits as per consolidated accounts	1,052,021	932,447
Add: Consolidated adjustments	(226,579)	(226,579)
	825,442	705,868

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.

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The disclosure of realised and unrealised profits 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 A18 above.

B13. Dividends Proposed

None

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 30 September		9 months ended 30 September	
	2017	2016	2017	2016
Net profit attributable to shareholders for the period (RM'000)	100,736	57,927	293,144	155,771
Weighted average number of ordinary shares in issue ('000)	5,936,919	4,916,352	5,849,010	3,540,256
Basic earnings per share (sen)	1.70	1.18	5.01	4.40

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.

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	3rd quarter ended		9 months ended	
	30 September		30 September	
	2017	2016	2017	2016
Net profit attributable to shareholders for the period (RM'000)	100,736	57,927	293,144	155,771
Weighted average number of ordinary shares in issue ('000)	5,936,919	4,916,352	5,849,010	3,540,256
Weighted average effect of dilution on ESOS ('000)	344	-	344	-
Weighted average effect of dilution on Warrants ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	<u>5,937,263</u>	<u>4,916,352</u>	<u>5,849,354</u>	<u>3,540,256</u>
Diluted earnings per share (sen)	<u>1.70</u>	<u>1.18</u>	<u>5.01</u>	<u>4.40</u>

B15. Authorisation for Issue

The audited interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 23 November 2017.

BY ORDER OF THE BOARD

Koh Ai Hoon
(MAICSA 7006997)
Tong Lee Mee
(MAICSA 7053445)
Joint Company Secretaries
Kuala Lumpur
23 November 2017