

**MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)**  
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 MARCH 2013

**A1. Basis of Preparation**

The unaudited interim financial statements for the 1<sup>st</sup> quarter ended 31 March 2013 have been prepared under the historical cost convention except for the following financial assets and financing liabilities which are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method: Loans and receivables, investments held-to-maturity, trade and other payables, bank borrowings and recourse obligations on loans sold to Cagamas Berhad.

The unaudited 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 2012.

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

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

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

Effective for annual periods commencing on or after 1 January 2013

- Amendments to MFRS 101 Presentation of items of Other Comprehensive Income
- MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)
- MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)
- MFRS 10 Consolidated Financial Statements
- MFRS 11 Joint Arrangements
- MFRS 12 Disclosure of Interests in Other Entities
- MFRS 13 Fair Value Measurement
- MFRS 119 Employee Benefits (IAS 19 as amended by IASB in June 2011)
- MFRS 127 Separate Financial Statements (IAS 27 as amended by IASB in May 2011)
- MFRS 128 Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)
- Amendments to MFRS 7 Disclosures: Offsetting Financial Assets and Financial Liabilities
- IC interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

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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 2014

- Amendments to Offsetting Financial Assets and Financial Liabilities MFRS 132

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.

**A2. Audit Report of Preceding Financial Year Ended 31 December 2012**

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. Loans, Advances and Financing**

	<b>Group</b>	
	<b>31-03-13</b>	<b>31-12-12</b>
	<b>RM'000</b>	<b>RM'000</b>
Personal financing	20,044,902	17,793,675
Mortgage loans and financing	5,363,439	5,408,724
Corporate loans and financing	3,499,633	3,521,757
Auto Financing	152,481	128,098
Gross loans, advances and financing	<u>29,060,455</u>	<u>26,852,254</u>
Allowance for impairment:		
- Collectively assessed	(949,332)	(902,630)
- Individually assessed	(1,560,776)	(1,684,059)
Net loans, advances and financing	<u>26,550,347</u>	<u>24,265,565</u>

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Movements in the impaired loans, advances and financing are as follows:

	<b>Group</b>	
	<b>31-03-13</b>	<b>31-12-12</b>
	<b>RM'000</b>	<b>RM'000</b>
Balance as at 1 January	3,000,788	3,137,754
Classified as impaired during the year	295,577	926,090
Reclassified as non-impaired	(453,829)	(565,840)
Amount recovered	(30,465)	(259,006)
Amount written off	(90,124)	(238,210)
Balance as at end of year	<u>2,721,947</u>	<u>3,000,788</u>
Collective allowance	(400,456)	(390,888)
Individual allowance	<u>(1,408,191)</u>	<u>(1,517,034)</u>
	<u>(1,808,647)</u>	<u>(1,907,922)</u>
Net impaired loans, advances and financing	<u>913,300</u>	<u>1,092,866</u>
Net impaired loans as per percentage of net loans, advances and financing	<u>3.4%</u>	<u>4.5%</u>

**A7. Debts and Equity Securities**

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

**A7. Debts and Equity Securities (continued)**

	<b>No of ordinary shares of</b>		
	<b>RM1.00 each '000</b>	<b>Ordinary shares RM'000</b>	<b>Share premium RM'000</b>
<b>At 1 January 2013</b>	1,240,361	1,240,361	514,098
Issued at RM1.17 per share pursuant to ESOS	1,317	1,317	224
Issued at RM1.67 per share pursuant to ESOS	2,142	2,142	1,435
Issued at RM2.33 per share pursuant to ESOS	655	655	871
Issued at RM1.00 per share pursuant to warrants	369,775	369,775	-
Transfer from share option reserve	-	-	2,333
Transfer from warrants reserve	-	-	112,230
<b>As at 31 March 2013</b>	<u>1,614,250</u>	<u>1,614,250</u>	<u>631,191</u>

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**A8. Dividends Paid**

None.

**A9. Segmental Information on Revenue and Results**

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

	<b>Hotel</b>			<b>Consolidated RM'000</b>
	<b>Financing RM'000</b>	<b>Operations RM 000</b>	<b>Eliminations RM'000</b>	
<b>3 months ended 31 March 13</b>				
External sales	563,953	2,204	(3,682)	562,475
Intersegment transactions	1,705	676	(2,381)	-
Total revenue	<u>565,658</u>	<u>2,880</u>	<u>(6,063)</u>	<u>562,475</u>
Segment results	223,943	(1,957)	15,124	237,110
Unallocated income (net of cost)				-
Profit from operations				<u>237,110</u>
<b>3 months ended 31 March 12</b>				
External sales	383,129	2,148	(6,398)	378,879
Intersegment transactions	977	-	(977)	-
Total revenue	<u>384,106</u>	<u>2,148</u>	<u>(7,375)</u>	<u>378,879</u>
Segment result	98,456	(2,196)	14,210	110,470
Unallocated income (net of cost)				-
Profit from operations				<u>110,470</u>

**A10. Valuation of Property, Plant and Equipment**

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

**A11. Subsequent Events**

As at the date of this report, there were no material events occurring subsequent to the end of the current quarter that have not been reflected in the financial statements for the current quarter.

**A12. Changes in the Composition of the Group**

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

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**A13. Contingent Liabilities****(a) Contingencies**

**As at**  
**31-03-13**  
**RM'000**

**Fully secured:**

Financial guarantee to secure payments by borrowers	24,094
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**(b) Material Litigations**

- (i) A contractor appointed by one of the Company's borrowers has instituted civil suits against the Company for an alleged breach of contract and is claiming damages amounting to RM2.54 million.

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

Pre-trial case management was fixed on 21 March 2012 and for full trial from 26 to 30 March 2012. The matter came up for decision on 30 April 2012 and the claim against MBSB was dismissed with costs. The contractor had on 29 May 2012 filed an appeal against MBSB and it is pending a hearing date.

- (ii) A former borrower of the Company has instituted a suit against the Company for an alleged breach of facility agreement and is claiming damages amounting RM43.311 million. The Company had terminated the said facility due to the former borrower's breach of facility agreement and had subsequently sold the loan asset to an unrelated company.

On 30 September 2010, the Court dismissed the borrower's claim with costs. The borrower filed an appeal on 25 October 2010 which was fixed for hearing on 23 January 2013. The hearing date has since been vacated to a future date which is yet to be set as the borrower was wound up by a third party.

- (iii) A third party and its holding company (collectively "the Plaintiffs") have instituted a civil suit against the Company and its subsidiary for an alleged breach of facility agreement.

The Company and its subsidiary had filed its defence and counterclaim in response to the suit. The Company and its subsidiary had also filed an application to strike out the Plaintiff's suit which was dismissed with costs on 24 May 2010. The Company's appeal in respect of the striking out was heard on 3 April 2012 and was dismissed by the Court of Appeal with costs.

The Company filed an application for security for costs against the Plaintiffs and this was dismissed on 18 May 2011. The Company's solicitors filed an appeal on 20 May 2011 ("Company's security for costs appeal"). The Company's security for costs appeal was allowed on 30 November 2011. The Plaintiffs have deposited the security for costs with the Court by way of Bank Guarantee.

The main suit is now fixed for hearing from 19 to 21 August 2013.

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**A14. Acquisition/Disposal of Property, Plant and Equipment**

	<b>As at 31-03-13 RM'000</b>
Additions	
Building renovation	424
Furniture & equipment	337
Data processing equipment	426
	1,187

**A15. Significant Related Party Transactions**

	<b>Quarter</b>		<b>Cumulative</b>	
	<b>Current</b>	<b>Preceding</b>	<b>Current</b>	<b>Preceding</b>
	<b>Quarter</b>	<b>Quarter</b>	<b>Year To</b>	<b>Year To</b>
	<b>31-03-13</b>	<b>31-12-12</b>	<b>31-03-13</b>	<b>31-03-12</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Transactions with Employees Provident Fund Board, the ultimate holding body:				
Funding cost on securitised	4,813	5,156	4,813	6,188
Rental paid	72	72	72	72
	72	72	72	72

**A16. Capital Commitments**

As at 31 March 2013, there were no commitments other than those stated below:

	<b>RM'000</b>
Approved but not contracted for	
- purchase of property, plant and equipment and software	34,910
Contracted and pending shareholders' approval	
- purchase of real estate	239,237
	274,147

**A17. Impairment Loss**

There were no other impairment losses other than those disclosed in note A6 above.

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

### **B1. Performance Review**

#### **Current Period-to-date vs Previous Year Corresponding Period-to-date**

The Group profit before tax for the financial period ended 31 March 2013 of RM237.110 million increased by RM126.640 million or 115% as compared to the previous year corresponding period profit before taxation of RM110.470 million. The increase was mainly due to higher income from Islamic banking operations via the expansion of personal financing and higher net interest income from conventional business.

The performance of the respective operating business segments for the period ended 31 March 2013 as compared to the previous year corresponding period is analysed as follows:

**Personal financing** – The gross income from personal financing was higher due to the growth of personal financing portfolio. However, the higher personal financing loan base also resulted in the higher collective allowance charged to the income statement.

**Mortgage loans and financing** – The gross income from mortgage loans and financing was slightly lower mainly due to lower disbursement during the current period.

**Corporate loans and financing** – The gross income from corporate loans and financing were higher due to higher disbursements and lower individual assessment impairment allowance for the current period due to settlement of impairment accounts.

### **B2. Variance of Results against Preceding Quarter**

The Group profit before tax for the 1<sup>st</sup> quarter 2013 of RM237.110 million decreased by RM8.637 million or 3.5% as compared to the preceding quarter of RM245.747 million. This was mainly due to the gain of RM55.43 million from the disposal of property development by a wholly owned subsidiary accounted for in the 4<sup>th</sup> quarter of 2012.

As such, excluding the said gain of RM55.433 million from the 4<sup>th</sup> quarter of 2012, the Group profit before tax for 1<sup>st</sup> Quarter 2013 would have increased by RM46.79 million or 24.6% over the 4<sup>th</sup> quarter 2012. The increase was mainly due the profit contribution from Islamic operations due to continuing growth of personal financing portfolio, lower amortisation cost associated to the personal financing disbursement and was partially set off by higher operating expenses and impairment allowance.

### **B3. Prospects**

#### **Brief Overview of the Malaysian Economy**

**Private sector financing activity was sustained:** In the fourth quarter, financing conditions remained supportive of economic activity. Total gross financing raised by the private sector through the banking system and the capital market was sustained at RM262.5 billion in the fourth quarter (3Q 12: RM272.9 billion). On a net basis, banking system loans and PDS outstanding expanded at an annual growth rate of 12.4% as at end-December (end-September 2012: 12.8%).

In the business sector, while loans outstanding from the banking system moderated due to large repayments during the quarter, loans disbursed to businesses remained strong. Most of the loans were disbursed mainly to the wholesale and retail, restaurants and hotels; real estate; electricity, gas and water supply and agriculture sectors. Demand for new financing

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by businesses, however, moderated due to the absence of the large loan applications that were seen earlier in the year. On an annual basis, business loans outstanding expanded at a growth rate of 10.9% as at end-December (end-September 2012: 13.6%).

Financing to the household sector continued to expand by RM17.9 billion during the quarter (3Q 12: RM17.2 billion). On an annual basis, however, household loans outstanding grew at a more gradual pace of 11.5% as at end-December (end-September 2012: 11.9%). Household demand for loans was sustained with loan applications mainly for the purchase of residential property, passenger cars and securities.

*(Extracted from Bank Negara Malaysia's Economic and Financial Developments in Malaysia Report in the 4<sup>th</sup> Quarter 2012, dated 21 February 2013)*

### Group Prospect

The continued growth in earnings for the 1<sup>st</sup> quarter 2013 was due to the Group's continuing growth in retail financing and loans segment. The Group continues to give focus on fee-based income to enhance profitability whilst enhancing its risk management framework to improve its workflows and quality of its financing and loan assets. In addition, the Group continues to focus to improve its customer service level for a better customer experience.

Barring any unforeseen circumstances, the Group expects to record satisfactory performance in 2013.

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

None.

#### B5. Taxation

	Quarter		Cumulative	
	Current Quarter 31-03-13 RM'000	Preceding Quarter 31-12-12 RM'000	Current Year To Date 31-03-13 RM'000	Preceding Year To Date 31-03-12 RM'000
Current income tax:				
Malaysian income tax	71,181	79,139	71,181	31,073
Over provision in prior years:				
Malaysian income tax	(197)	(21,894)	(197)	-
	<u>70,984</u>	<u>57,245</u>	<u>70,984</u>	<u>31,073</u>
Deferred tax:				
Relating to origination and reversal of temporary differences	(18)	3,828	(18)	(18)
	<u>(18)</u>	<u>3,828</u>	<u>(18)</u>	<u>(18)</u>
Total income tax expense	<u>70,966</u>	<u>61,073</u>	<u>70,966</u>	<u>31,055</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the quarter. The higher effective tax rate for the current quarter was mainly due to adjustment made for non-allowable items.



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

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

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

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

**B8. Status of Corporate Proposals**

Proposals	Announcement Date	Status
Proposed acquisition by MBSB Tower Sdn Bhd (formerly known as Ambang Hartamas Sdn Bhd), a wholly owned subsidiary of the Company, of a proposed office building to be developed for a total cash consideration of RM239,236,750	12 Dec 2012	Pending fulfilment of conditions precedent to the sale and purchase agreement

**B9. Borrowings and Debts**

Borrowings of the Group as at 31 March 2013 were as follows:

	As at 31-03-13 RM'000	As at 31-12-12 RM'000
Short term bank borrowings	200,103	350,217
Islamic financing facility (secured)	326,141	351,203
	<u>526,244</u>	<u>701,420</u>
Maturity of borrowings:		
- One year or less	317,289	467,403
- More than one year	208,955	234,017
Total	<u>526,244</u>	<u>701,420</u>
Recourse obligation on loans sold to Cagamas Berhad (secured):		
- One year or less	210,961	210,961
- More than one year	2,128,786	2,151,036
Total	<u>2,339,747</u>	<u>2,361,997</u>

All borrowings are denominated in Ringgit Malaysia.

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**B10. Off Balance Sheet Financial Instruments**

None.

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

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

	<b>Cumulative</b>	
	<b>As at 31-03-13 RM'000</b>	<b>As at 31-12-12 RM'000</b>
Total accumulated losses of the Group:		
- Realised	(807,743)	(890,448)
- Unrealised in respect of deferred tax recognised in the income statement	18	(10,355)
Total Group accumulated losses as per consolidated accounts	(807,725)	(900,803)
Add: Consolidated adjustments	526,802	511,660
	(280,923)	(389,143)

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 A13 above.

**B13. Dividends Proposed**

None.

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**B14. Earnings Per Share****Basic**

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

	<b>Quarter</b>		<b>Cumulative</b>	
	<b>Current</b>	<b>Preceding</b>	<b>Current</b>	<b>Preceding</b>
	<b>Quarter</b>	<b>Quarter</b>	<b>Year to</b>	<b>Year to</b>
	<b>31-03-13</b>	<b>31-12-12</b>	<b>Date</b>	<b>Date</b>
	<b>31-03-13</b>	<b>31-12-12</b>	<b>31-03-13</b>	<b>31-03-12</b>
Net profit attributable to shareholders for the year (RM'000)	166,144	183,606	166,144	79,415
Weighted average number of ordinary shares in issue ('000)	1,270,474	1,215,507	1,270,474	1,215,502
Basic earnings per share (sen)	<u>13.08</u>	<u>15.11</u>	<u>13.08</u>	<u>6.53</u>

**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").

	<b>Quarter</b>		<b>Cumulative</b>	
	<b>Current</b>	<b>Preceding</b>	<b>Current</b>	<b>Preceding</b>
	<b>Quarter</b>	<b>Quarter</b>	<b>Year to</b>	<b>Year to</b>
	<b>31-03-13</b>	<b>31-12-12</b>	<b>Date</b>	<b>Date</b>
	<b>31-03-13</b>	<b>31-12-12</b>	<b>31-03-13</b>	<b>31-03-12</b>
Net profit attributable to shareholders for the year (RM'000)	166,144	183,606	166,144	79,415
Weighted average number of ordinary shares in issue ('000)	1,270,474	1,215,507	1,270,474	1,215,502
Weighted average effect of dilution on ESOS ('000)	6,758	817	6,758	3,203
Weighted average effect of dilution on Warrants ('000)	<u>80,086</u>	<u>281,201</u>	<u>80,086</u>	<u>279,291</u>
Adjusted weighted average number of ordinary shares in issue ('000)	<u>1,357,318</u>	<u>1,497,525</u>	<u>1,357,318</u>	<u>1,497,996</u>
Diluted earnings per share (sen)	<u>12.24</u>	<u>12.26</u>	<u>12.24</u>	<u>5.30</u>

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**B15. Authorisation For Issue**

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 3 May 2013.

BY ORDER OF THE BOARD

Koh Ai Hoon  
Tong Lee Mee  
Joint Company Secretaries  
Kuala Lumpur  
3 May 2013