

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

A1. Basis of Preparation

The unaudited interim financial statements for the 1st quarter ended 31 March 2014 have been prepared under the historical cost convention except for the following financial assets and financing liabilities which are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method: Loans and receivables, investments held-to-maturity, trade and other payables, bank borrowings and recourse obligations on loans sold to Cagamas Berhad.

The unaudited interim financial statements have been prepared in accordance with MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and Chapter 9, Part K of the Listing Requirements of Bursa Malaysia Securities Berhad. The unaudited interim financial statements should be read in conjunction with the audited annual financial statements of the Group for the financial year ended 31 December 2013.

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

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

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

Effective for annual periods commencing on or after 1 January 2014

- Amendments to Offsetting Financial Assets and Financial Liabilities
MFRS 132
- Amendments to Investment Entities
MFRS 10, MFRS
12 and MFRS
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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 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.

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. Loans, Advances and Financing

	Group	
	31-3-14	31-12-13
	RM'000	RM'000
Personal financing	23,415,634	23,388,929
Mortgage loans and financing	5,374,694	5,395,114
Corporate loans and financing	3,039,062	2,924,759
Auto Financing	219,527	206,728
Gross loans, advances and financing	<u>32,048,917</u>	<u>31,915,530</u>
Allowance for impairment:		
- Collectively assessed	(1,340,141)	(1,318,443)
- Individually assessed	<u>(292,831)</u>	<u>(300,865)</u>
Net loans, advances and financing	<u>30,415,945</u>	<u>30,296,222</u>

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

	Group	
	3 months	6 months
	classification	classification
	31-3-14	31-12-13
	RM'000	RM'000
Balance as at 1 January	1,648,383	3,000,788
Classified as impaired during the period	1,464,459	982,861
Reclassified as non-impaired	(672,895)	(946,634)
Amount recovered	(12,137)	(47,733)
Amount written off	-	(1,340,899)
Balance as at end of period	<u>2,427,810</u>	<u>1,648,383</u>
Collective allowance	(729,028)	(467,904)
Individual allowance	<u>(163,389)</u>	<u>(159,610)</u>
	<u>(892,417)</u>	<u>(627,514)</u>
Net impaired loans, advances and financing	<u>1,535,393</u>	<u>1,020,869</u>
Net impaired loans as per percentage of net loans, advances and financing	<u>5.1%</u>	<u>3.4%</u>

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

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.

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A7. Debts and Equity Securities (continued)

	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	160	160	2
Issued at RM1.44 per share pursuant to ESOS	1,076	1,076	473
Issued at RM2.01 per share pursuant to ESOS	59	59	60
Issued at RM1.65 per share pursuant to rights issue	873,929	873,929	560,021
Issued at RM1.00 per share pursuant to warrants	2	2	-
Transfer from share option reserve	-	-	1,086
Transfer from warrants reserve	-	-	-
As at 31 March 2014	<u>2,623,094</u>	<u>2,623,094</u>	<u>1,192,831</u>

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.

	Financing RM'000	Hotel Operations RM'000	Eliminations RM'000	Consolidated RM'000
3 months ended 31 March 14				
External sales	655,690	2,099	9,321	667,110
Intersegment sales	12,081	850	(12,931)	-
Total revenue	<u>667,771</u>	<u>2,949</u>	<u>(3,610)</u>	<u>667,110</u>
Segment results	256,268	(2,337)	13,033	266,964
Unallocated income (net of cost)				-
Profit from operations				<u>266,964</u>
3 months ended 31 March 13				
External sales	563,953	2,204	(3,682)	562,475
Intersegment sales	1,705	676	(2,381)	-
Total revenue	<u>565,658</u>	<u>2,880</u>	<u>(6,063)</u>	<u>562,475</u>
Segment result	223,943	(1,957)	15,124	237,110
Unallocated income (net of cost)				-
Profit from operations				<u>237,110</u>

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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

None.

A12. Changes in the Composition of the Group

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

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

As at
31-3-14
RM'000

Fully secured:

Financial guarantee to secure payments by borrowers	113,937
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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 the Company was dismissed with costs. The contractor had then on 29 May 2012 filed an Appeal against the Company in which the Court of Appeal subsequently allowed for the contractor's claim against the Company. The Company's solicitors have subsequently filed a counter Appeal to the Federal Court on the Decision where the matter is now pending a Hearing date.

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A13. Contingent Liabilities (continued)**(b) Material Litigations (continued)**

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

The Company and its subsidiary had filed its defence and counterclaim in response to the suit. The matter came up for Trial from 19 to 21 August 2013 and for Continuation of Trial on 12 October 2013 and 19 October 2013 respectively. Subsequently the Court has fixed for new Trial dates to be set on 28 February 2014 with additional Trial dates on 6, 7 and 10 March 2014. The Court has then fixed the matter for Continuation of Trials on 18 April 2014, 7 July 2014 and 8 July 2014.

Separately, the Plaintiffs had on 25 April 2013 served an originating summons on the Company seeking for an order from the Johor Bahru High Court that the charge created in favour of the Company be set aside and is of no effect and for a removal and cancellation of the same. The Court matter came up for Hearing on 13 December 2013 the Plaintiffs’ application was allowed. The Company filed an Appeal and a stay application on 17 December 2013. On 8 January 2014 the Court of Appeal granted the stay until disposal of the Appeal. The Appeal has been fixed for Hearing on 16 July 2014.

The directors after obtaining advice from the Company’s solicitors are of the opinion that the Company has reasonably good cases in respect of all the claims against the Company and as such, no provision has been made in the financial statements.

A14. Acquisition/Disposal of Property, Plant and Equipment

	As at 31-3-14 RM’000
Additions	
Building renovation	1,574
Furniture & equipment	924
Data processing equipment	247
	2,745

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A15. Significant Related Party Transactions

	Quarter		Cumulative	
	Current Quarter 31-3-14 RM'000	Preceding Quarter 30-12-13 RM'000	Current Year To Date 31-3-14 RM'000	Preceding Year To Date 31-3-13 RM'000
Transactions with Employees Provident Fund Board, the ultimate holding body:				
Funding cost on securitised financing	3,438	3,781	3,438	4,813
Rental paid	66	70	66	72
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

A16. Capital Commitments

As at 31 March 2014, there were no commitments other than those stated below:

	RM'000
Approved but not contracted for	
- purchase of property, plant and equipment and software	11,117
Approved and contracted for	
- purchase of real estate	<u>239,237</u>
	<u>250,354</u>

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 Corresponding Period-to-date

The Group profit before tax for the financial period ended 31 March 2014 of RM266.964 million increased by RM29.854 million or 13% as compared to the previous year corresponding period profit before taxation of RM237.110 million. The increase was mainly due to higher profit and interest income from personal financing and corporate loans respectively. The current period profit before tax was further improved by higher other operating income and lower allowances for impairment losses on loans, advances and financing.

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

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

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

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

B2. Variance of Results against Preceding Quarter

The Group profit before tax for the 1st quarter 2014 of RM266.964 million increased by RM15.549 million or 6% as compared to the preceding quarter of RM251.415 million. The increase was mainly as a result of lower impairment losses on loans, advances and financing in addition to lower other operating expenses. These were partially set off by lower net interest and profit income from conventional and Islamic banking operations as well as lower other operating income.

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B3. Prospects

Brief Overview and Outlook of the Malaysian Economy

The Malaysian economy registered a growth of 5.1% in the fourth quarter of 2013 (3Q 2013: 5.0%). Growth was supported by private sector demand and improvement in exports. Public sector spending, however, moderated. On a quarter-on-quarter seasonally adjusted basis, the economy grew by 2.1% (3Q 2013:1.7%).

Domestic demand remained the anchor for growth, expanding by 6.4% (3Q 2013: 8.3%). Private sector activity grew further, as reflected by robust private investment growth and continued expansion in private consumption. Public sector spending, however, moderated due to slower public consumption and declining investment growth.

During the fourth quarter, the Federal Government's operating expenditure declined by 4.6% on an annual basis due to lower emoluments and subsidies. Revenue grew by 6.8% driven by higher company tax and investment income. Development expenditure was disbursed mainly to the transportation, commerce and industry, and education sectors. For the year as a whole, the Federal Government recorded a lower fiscal deficit of 3.9% of GDP (2012: 4.5% of GDP). Total outstanding debt of the Federal Government stood at RM539.9 billion or 54.8% of GDP as at end-December 2013.

(Source: Extracted from BNM, Quarterly Bulletin, Developments in the Malaysian Economy, Fourth Quarter 2013)

The banking system remained strong and well capitalised even with the implementation of the new and more stringent Basel III capital adequacy framework, effective from 1 January 2013. As at end-August 2013, the common equity tier 1 capital ratio, tier 1 capital ratio and total capital ratio of the banking system registered 12%, 12.8% and 14.1%. Capital buffers in excess of the minimum regulatory requirement, remained high at more than RM73 billion. Liquidity remained ample with banks maintaining strong liquidity buffers and a large placement of more than RM147 billion with BNM. The banking system also recorded a projected liquidity surplus of 14% of total deposits for liquidity needs maturing within one week.

Meanwhile, the financial sector regulatory and supervisory framework was further strengthened when the Financial Services Act 2013 (FSA) and the IFSA came into force on 30 June 2013. The FSA and IFSA were the culmination of efforts to modernise the laws that govern the conduct and supervision of financial institutions in Malaysia. This is to ensure that these laws continue to be relevant and effective to maintain financial stability, support inclusive growth in the financial system and the economy, as well as to provide adequate protection for consumers. The FSA and IFSA consolidated and replaced several separate laws, namely the Banking and Financial Institutional Act 1989 (BAFIA), Islamic Banking Act 1983, Insurance Act 1996, Takaful Act 1984, Payment Systems Act 2003 and Exchange Control Act 1953, to govern the financial sector under a single legislative framework for the conventional and the Islamic financial sector, respectively.

(Source: Extracted from the Economic Report 2013/2014, Monetary and Financial Developments, Ministry of Finance)

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In the fourth quarter, total gross financing raised by the private sector through banking system and the capital market amounted to RM302.8 billion (3Q 2013: RM260.6 billion). On a net basis, outstanding banking system loans and PDS expanded at an annual growth rate of 9.9% as at end-December (end-September 2013: 8.8%).

Net lending to businesses by the banking system expanded by RM11.2 billion during the quarter (3Q2013: RM3.5 billion) with higher loan disbursements mainly to the *wholesale and retail, restaurants and hotels; manufacturing; construction; and transport, storage and communication* sectors. On an annual basis, outstanding business loans grew by 8.5% during the quarter (end-September 13: 7.1%). Demand for new financing by large businesses moderated slightly while loan applications by SMEs remained robust.

Net financing to the household sector expanded by RM20.9 billion during the quarter (3Q 2013: RM19.8 billion). On an annual basis, outstanding household loans grew at a stable pace of 12.0% as at end-December (end-September 2013: 11.9%). The level of household loan applications was sustained during the quarter.

(Source: Extracted from BNM, Quarterly Bulletin, Monetary and Financial Developments in the Malaysian Economy, Fourth Quarter 2013)

Group Prospects

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

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

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

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

B4. Variance from Profit Forecast and Profit Guarantee

None.

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B5. Taxation

	Quarter		Cumulative	
	Current Quarter 31-3-14 RM'000	Preceding Quarter 31-12-13 RM'000	Current Year To Date 31-3-14 RM'000	Preceding Year To Date 31-3-13 RM'000
Current income tax:				
Malaysian income tax	79,031	114,173	79,031	71,181
Tax refund	(8,783)	-	(8,783)	-
Under provision in prior years:				
Malaysian income tax	-	20	-	(197)
	<u>70,248</u>	<u>114,193</u>	<u>70,248</u>	<u>70,984</u>
Deferred tax:				
Relating to origination and reversal of temporary differences	(18)	597	(18)	(18)
	<u>(18)</u>	<u>597</u>	<u>(18)</u>	<u>(18)</u>
Total income tax expense	<u>70,230</u>	<u>114,790</u>	<u>70,230</u>	<u>70,966</u>

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

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

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

B7. Purchase and Sale of Quoted Securities

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

B8. Status of Corporate Proposals

None.

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B9. Borrowings and Debts

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

	As at 31-3-14 RM'000	As at 31-12-13 RM'000
Short term bank borrowings	500,678	1,440,319
Islamic financing facility (secured)	225,748	250,869
	<u>726,426</u>	<u>1,691,188</u>
Maturity of borrowings:		
- One year or less	601,426	1,549,682
- More than one year	125,000	141,506
Total	<u>726,426</u>	<u>1,691,188</u>
Recourse obligation on loans sold to Cagamas Berhad (secured):		
- One year or less	906,682	97,230
- More than one year	1,340,740	2,169,994
Total	<u>2,247,422</u>	<u>2,267,224</u>

All borrowings are denominated in Ringgit Malaysia.

B10. Off Balance Sheet Financial Instruments

None.

B11. Realised and Unrealised Profits and Losses

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

	Cumulative	
	As at 31-3-14 RM'000	As at 31-12-13 RM'000
Total accumulated losses of the Group:		
- Realised	(599,671)	(769,019)
- Unrealised in respect of deferred tax recognised in the income statement	18	(11,967)
Total Group accumulated losses as per consolidated accounts	<u>(599,653)</u>	<u>(780,986)</u>
Add: Consolidated adjustments	567,014	551,469
	<u>(32,639)</u>	<u>(229,517)</u>

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.

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B12. Material Litigation

The details of the pending material litigation are as per note A13 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.

	Quarter		Cumulative	
	Current Quarter 31-3-14	Preceding Quarter 31-12-13	Current Year to Date 31-3-14	Preceding Year to Date 31-3-13
Net profit attributable to shareholders for the year (RM'000)	196,734	133,548	196,734	166,144
Weighted average number of ordinary shares in issue ('000)	2,350,084	1,744,102	2,350,084	1,270,474
Basic earnings per share (sen)	<u>8.37</u>	<u>7.66</u>	<u>8.37</u>	<u>13.08</u>

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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.

	Quarter		Cumulative	
	Current Quarter 31-3-14	Preceding Quarter 31-12-13	Current Year to Date 31-3-14	Preceding Year to Date 31-3-13
Net profit attributable to shareholders for the year (RM'000)	196,734	133,548	196,734	166,144
Weighted average number of ordinary shares in issue ('000)	2,350,084	1,744,102	2,350,084	1,270,474
Weighted average effect of dilution on ESOS ('000)	2,954	4,013	2,954	6,758
Weighted average effect of dilution on Warrants ('000)	8,592	11,740	8,592	80,086
Adjusted weighted average number of ordinary shares in issue ('000)	<u>2,361,630</u>	<u>1,759,855</u>	<u>2,361,630</u>	<u>1,357,318</u>
Diluted earnings per share (sen)	<u>8.33</u>	<u>7.59</u>	<u>8.33</u>	<u>12.24</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 15 May 2014.

BY ORDER OF THE BOARD

Koh Ai Hoon
Tong Lee Mee
Joint Company Secretaries
Kuala Lumpur
15 May 2014