MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 DECEMBER 2012

A1. Basis of Preparation

The unaudited interim financial statements for the 4th quarter ended 31 December 2012 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 2011.

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.

Since the previous annual audited financial statements as at 31 December 2011 were issued, 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 MFRS, IC Interpretation and Amendments to MFRSs have been adopted by the Group during the current period:

IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments
Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to MFRS 1)
Disclosures – Transfers of Financial Assets (Amendments to MFRS 7)
Deferred tax: Recovery of Underlying Assets (Amendments to MFRS 112)

The adoption of the IC Interpretation and Amendments to MFRSs above did not have any financial impact on the Group as they mainly help to clarify the requirements of or provide further explanations to existing MFRSs.

The following MFRSs and IC Interpretations have been issued by the MASB and are not yet effective:

A1. Basis of Preparation (continued)

Effective for annual periods commencing on or after 1 July 2013

MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interests in Other Entities
MFRS 13	Fair Value Measurements
MFRS 119	Employee Benefits (as amended in June 2011)
MFRS 127	Separate Financial Statements (as amended by IASB in May 2011)
MFRS 128	Investments in Associates and Joint Ventures (as amended by IASB in May 2011)
IC interpretation 20	Stripping Costs in the Production Phase of a Surface Mine

Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 7)

Effective for annual periods commencing on or after 1 January 2014
Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 132)

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)

IC Interpretation 20 will not have any financial impact to the Group as it is not relevant to the Group's operations. 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 2011

The audit report on the financial statements of the preceding year was not qualified.

A3. Seasonality and Cyclicality 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 year.

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 year.

A6. Loans, Advances and Financing

	31 Dec 2012 RM'000	31 Dec 2011 RM'000
Personal financing	17,793,675	8,717,754
Mortgage loans and financing	5,408,724	5,588,270
Corporate loans and financing	3,521,757	3,498,056
Auto Financing	128,098	-
Gross loans, advances and financing	26,852,254	17,804,080
Allowance for impairment:		
- Collectively assessed	(902,628)	(694,828)
- Individually assessed	(1,684,056)	(1,924,621)
Net loans, advances and financing	24,265,570	15,184,631

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

	Group	
	31 Dec 2012 RM'000	31 Dec 2011 RM'000
Balance as at 1 January	3,137,754	4,907,989
Classified as impaired during the year	926,090	746,587
Reclassified as non-impaired	(706,933)	(1,252,381)
Amount recovered	(138,807)	(167,850)
Amount written off	(217,315)	(1,096,591)
Balance as at end of year	3,000,789	3,137,754
Allowance for impairment	(1,907,922)	(1,843,959)
Net impaired loans, advances and financing	1,092,867	1,293,795
Net impaired loans as per percentage of net loans, advances and financing	4.5%	8.5%

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 year.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 DECEMBER 2012

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 2012	1,215,501	1,215,501	498,498
Issued at RM1.17 per share pursuant to ESOS	18,486	18,486	3,143
Issued at RM1.67 per share pursuant to ESOS	2,568	2,568	1,721
Issued at RM1.00 per share pursuant to warrants	3,806	3,806	-
Transfer from share option reserve	-	-	9,698
At 31 December 2012	1,240,361	1,240,361	513,059

A8. Dividends Paid

The interim cash dividend of 6.0% less 25% taxation (4.5 sen net per ordinary share) on the 1,236,732,158 ordinary shares of RM1.00 each (as at 21 September 2012) amounted to RM55,652,946 in respect of the financial year ended 31 December 2012 was paid on 5 October 2012.

A9. Segmental Information on Revenue and Results

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

	Financing RM'000	Hotel Operations RM 000	Eliminations RM'000	Consolidated RM'000
3 months ended 31 December 12				
External sales	487,900	3,019	(3,394)	487,525
Intersegment transactions	1,775	680	(2,455)	-
Total revenue	489,675	3,699	(5,849)	487,525
Segment results	280,456	(2,152)	(32,557)	245,747
Unallocated income (net of cost)				-
Profit from operations				245,747
3 months ended 31 December 11				
External sales	331,458	3,633	12,051	347,142
Intersegment transactions	9,680	-	(9,680)	-
Total revenue	341,138	3,633	2,371	347,142
Segment result	97,284	(459)	4,373	101,198
Unallocated income (net of cost)				-
Profit from operations				101,198

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

EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 DECEMBER 2012

A9. Segmental Information on Revenue and Results (continued)

	Financing RM'000	Hotel Operations RM 000	Eliminations RM'000	Consolidated RM'000
12 months ended 31 December 12				
External sales	1,840,552	10,755	(19,747)	1,831,560
Intersegment sales	3,434	1,972	(5,406)	-
Total revenue	1,843,986	12,727	(25,153)	1,831,560
Segment results	655,913	(8,043)	8,357	656,227
Unallocated income (net of cost)				-
Profit from operations				656,227
12 months ended 31 December 11				
External sales	1,213,379	12,206	43,853	1,269,438
Intersegment sales	36,047	-	(36,047)	-
Total revenue	1,249,426	12,206	7,806	1,269,438
Segment result	400,165	(3,551)	31,648	428,262
Unallocated income (net of cost)				-
Profit from operations				428,262

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.

A13. Contingent Liabilities

(a) Contingencies

	As at 31/12/2012 RM'000
Fully secured:	
Financial guarantee to secure payments by borrowers	25,436

(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.

A13. Contingent Liabilities (continued)

(b) Material Litigations (continued)

(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.

A14. Acquisition/Disposal of Property, Plant and Equipment

	As at 31/12/2012 RM’000
Additions	
Building renovation	3,435
Furniture & equipment	2,423
Motor Vehicle	294
Data processing equipment	18,995
IT related systems	48,702
	73,849
Disposals	
Building Renovation	(1,211)
Furniture & equipment	(1,302)
Motor vehicle	(115)
	(2,628)

A15. Significant Related Party Transactions

	Quarter		Cumulative	
	Current Quarter	**Preceeding Quarter**	**Current Year To Date**	**Preceeding Year To Date**
	31/12/2012	**30/9/2012**	**31/12/2012**	**31/12/2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Transactions with Employees Provident Fund Board, the ultimate holding body:				
Funding cost on securitised financing	4,727	5,500	22,259	12,726
Rental paid	72	72	287	283

A16. Capital Commitments

As at 31 December 2012, there were no commitments for the purchase of property, plant and equipment and software other than those stated below:

	RM'000
Approved but not contracted for	16,450

A17. Impairment Loss

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

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 DECEMBER 2012

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

B1. Performance Review

Current Year-to-date vs Previous Year-to-date

The Group profit before taxation for the financial year ended 31 December 2012 of RM656.227 million increased by RM227.965 million or 53% as compared to the previous year profit before taxation of RM428.262 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 year ended 31 December 2012 as compared to the previous year is analysed as follows:

1) Personal financing – The gross income from personal financing was higher due to the continued expansion of personal financing portfolio. However, the higher personal financing loan base resulted in the higher collective allowance charged to the income statement.

2) Mortgage loans and financing – The gross income from mortgage loans and financing was slightly lower compared to the previous year which was mainly due to lower disbursement during the year.

3) Corporate loans and financing – The gross income from corporate loans and financing were higher due to higher disbursements during the year. The individual assessment impairment allowance for the current year was lower compared to the previous year.

4) Auto finance – The Group only started to disburse auto financing in the first quarter of 2012. The results does not have any significant impact to the overall Group performance.

B2. Variance of Results against Preceding Quarter

The Group profit before taxation for the 4th quarter 2012 of RM245.747 million increased by RM68.366 million or 38.5% as compared to the preceding quarter of RM177.381 million. The increase was mainly due to higher income from Islamic Banking operations contributed by personal financing portfolio, higher other operating income and lower allowance for impairment losses on loans, advances and financing. These were partially offset by higher other operating expenses.

B3. Prospects

Brief Overview of the Malaysian Economy

Banking System: Overall domestic financial stability had been preserved throughout the third quarter, supported by strong financial buffers both at the system and at the institutional levels. Financial market conditions continued to remain orderly as volatile portfolio flows were well intermediated by the markets.

The banking sector remained resilient during the quarter, with strong capital buffers, sustained profitability and ample liquidity. Capitalisation of the banking sector remained stable, with the core capital ratio and risk-weighted capital ratio at 13% (2Q 12: 13.4%) and 14.8% (2Q 12: 15.1%) respectively. Similarly, the insurance sector recorded a strong capital adequacy ratio of 218.6% (2Q 12: 216.7%) and a capital buffer in excess of RM20 billion.

(Extracted from Bank Negara Malaysia's Economic and Financial Developments in Malaysia Report in the 3rd Quarter 2012, dated 16 November 2012)

Group Prospect

The continued growth in earnings in the 4th quarter 2012 was due to the Group's continuing efforts in providing financing and loans in the retail segment. The Group continues to give focus on fee-based income to enhance profitability and to improve its financing and loan assets quality. Customer service level will continue to be enhanced to ensure 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.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 DECEMBER 2012

B5. Taxation

	Quarter		Cumulative	
	Current Quarter	Preceeding Quarter	Current Year To Date	Preceeding Year To Date
	31/12/2012 RM'000	30/9/2012 RM'000	31/12/2012 RM'000	31/12/2011 RM'000
Current income tax:				
Malaysian income tax	79,139	65,142	202,681	127,199
Under/(over) provision in prior years:				
Malaysian income tax	(21,894)	22,280	386	(27,294)
	57,245	87,422	203,067	99,905
Deferred tax:				
Relating to orgination and reversal of temporary differences	3,828	(18)	3,773	2,525
	3,828	(18)	3,773	2,525
Total income tax expense	61,073	87,404	206,840	102,430
RPGT recovered	-	-	-	(124)
	61,073	87,404	206,840	102,306

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 financial year ended 31 December 2012 was mainly due to adjustment 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 other than those stated below:

	Proceeds Received/Receivable RM'000
• Disposal of investment in a wholly owned subsidiary - Gadini Sdn Bhd	56,171
• Disposal of property development by a wholly owned subsidiary - Idaman Usahamas Sdn Bhd	180,000

B7. Purchase and Sale of Quoted Securities

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

B8. Status of Corporate Proposals

None.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 DECEMBER 2012

B9. Borrowings and Debts

Borrowings of the Group as at 31 December 2012 were as follows:

	As at 31/12/2012 RM'000	As at 31/12/2011 RM'000
Short term bank borrowings	350,217	100,044
Islamic financing facility (secured)	351,203	451,632
	701,420	551,676
Maturity of borrowings:		
- One year or less	467,403	201,676
- More than one year	234,017	350,000
Total	701,420	551,676
Recourse obligation on loans sold to Cagamas Berhad (secured):		
- One year or less	210,961	90,655
- More than one year	2,151,036	1,842,729
Total	2,361,997	1,933,384

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 31/12/2012 RM'000	**As at 31/12/2011 RM'000**
Total accumulated losses of the Group:		
- Realised	(892,996)	(1,172,455)
- Unrealised in respect of deferred tax recognised in the income statement	(7,807)	(2,525)
Total Group accumulated losses as per consolidated accounts	(900,803)	(1,174,980)
Add: Consolidated adjustments	511,660	459,150
	(389,143)	(715,830)

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

At the forthcoming Annual General Meeting, a final dividend of 9% less 25% taxation (6.75 sen net per ordinary share) and a special dividend of 18.0% less 25% taxation (13.5 sen net per ordinary share) in respect of the financial year ended 31 December 2012, will be proposed for shareholders' approval.

Based on the issued and paid up share capital as at 31 December 2012 of 1,240,360,882 ordinary shares, the total net dividend payable for the proposed final dividend and proposed special dividend would amount to RM251.173 million. The financial statements for the current financial year do not reflect these proposed dividends. Such dividends, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2013.

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 31/12/2012	**Preceding Quarter 30/9/2012**	**Current Year to Date 31/12/2012**	**Preceding Year to Date 31/12/2011**
Net profit attributable to shareholders for the year (RM'000)	183,606	89,977	446,651	325,432
Weighted average number of ordinary shares in issue ('000)	1,215,507	1,215,505	1,215,507	1,003,622
Basic earnings per share (sen)	15.11	7.40	36.75	32.43

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”).

	Quarter		Cumulative	
	Current Quarter 31/12/2012	**Preceding Quarter 30/9/2012**	**Current Year to Date 31/12/2012**	**Preceding Year to Date 31/12/2011**
Net profit attributable to shareholders for the year (RM'000)	183,606	89,977	446,651	325,432
Weighted average number of ordinary shares in issue ('000)	1,215,507	1,215,505	1,215,507	1,003,622
Weighted average effect of dilution on ESOS ('000)	817	2,122	817	1,061
Weighted average effect of dilution on Warrants ('000)	281,201	283,292	281,201	193,791
Adjusted weighted average number of ordinary shares in issue ('000)	1,497,525	1,500,919	1,497,525	1,198,474
Diluted earnings per share (sen)	12.26	5.99	29.83	27.15

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 31 January 2013.

BY ORDER OF THE BOARD

Koh Ai Hoon
Tong Lee Mee
Joint Company Secretaries
Kuala Lumpur
31 January 2013