

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 JUNE 2012

A1. Basis of Preparation

The unaudited interim financial statements for the 2nd quarter ended 30 June 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:

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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 Cyclical 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.

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A6. Loans, Advances and Financing

	Group	
	30 Jun 2012	31 Dec 2011
	RM'000	RM'000
Personal financing	15,536,595	8,717,754
Mortgage loans and financing	5,545,241	5,588,270
Corporate loans and financing	3,575,618	3,498,056
Auto Financing	29,378	-
Gross loans, advances and financing	<u>24,686,832</u>	<u>17,804,080</u>
Allowance for impairment:		
- Collectively assessed	(837,272)	(694,828)
- Individually assessed	<u>(1,909,192)</u>	<u>(1,924,621)</u>
Net loans, advances and financing	<u>21,940,368</u>	<u>15,184,631</u>

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

	Group	
	30 Jun 2012	31 Dec 2011
	RM'000	RM'000
Balance as at 1 January	3,137,031	4,907,989
Classified as impaired during the period/year	315,065	746,587
Reclassified as non-impaired	(355,034)	(1,252,381)
Amount recovered	(13,924)	(167,850)
Amount written off	<u>(33,243)</u>	<u>(1,096,591)</u>
Balance as at end of period/year	3,049,895	3,137,754
Allowance for impairment	<u>(1,826,858)</u>	<u>(1,843,959)</u>
Net impaired loans, advances and financing	<u>1,223,037</u>	<u>1,293,795</u>
Net impaired loans as per percentage of net loans, advances and financing	<u>6%</u>	<u>9%</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 year.

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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 2012	1,215,501	1,215,501	498,498
Issued at RM1.17 per share pursuant to ESOS	15,887	15,887	3,271
Issued at RM1.00 per share pursuant to warrants	274	274	-
At 30 June 2012	1,231,662	1,231,662	501,769

A8. Dividends Paid

The final dividend of 7.0% less 25% taxation (5.25 sen net per ordinary share) in respect of the financial year ended 31 December 2011 of RM64,639,936 was paid on 30 April 2012. The dividend payment was approved by the shareholders of the Company on 5 April 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 30 June 12				
External sales	447,417	1,983	(4,924)	444,476
Intersegment transactions	682	1,292	(1,974)	-
Total revenue	448,099	3,275	(6,898)	444,476
Segment results	111,285	(1,565)	12,909	122,629
Unallocated income (net of cost)				-
Profit from operations				122,629
3 months ended 30 June 11				
External sales	273,541	3,000	11,178	287,719
Intersegment transactions	9,065	-	(9,065)	-
Total revenue	282,606	3,000	2,113	287,719
Segment result	97,779	(788)	8,942	105,933
Unallocated income (net of cost)				-
Profit from operations				105,933

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A9. Segmental Information on Revenue and Results (continued)

	Financing	Hotel	Eliminations	Consolidated
	RM'000	Operations	RM'000	RM'000
		RM 000		
6 months ended 30 June 12				
External sales	828,948	4,752	(10,345)	823,355
Intersegment sales	1,659	1,292	(2,951)	-
Total revenue	<u>830,607</u>	<u>6,044</u>	<u>(13,296)</u>	<u>823,355</u>
Segment results	209,742	(3,762)	27,119	233,099
Unallocated income (net of cost)				-
Profit from operations				<u>233,099</u>
6 months ended 30 June 11				
External sales	554,707	5,778	21,733	582,218
Intersegment sales	17,761	-	(17,761)	-
Total revenue	<u>572,468</u>	<u>5,778</u>	<u>3,972</u>	<u>582,218</u>
Segment result	180,527	(2,042)	18,474	196,959
Unallocated income (net of cost)				-
Profit from operations				<u>196,959</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 30/6/2012 RM'000	As at 31/12/2011 RM'000
Fully secured:		
Financial guarantee to secure payments by borrowers	29,408	83,975

(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 has filed an appeal and 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 has filed an appeal on 25 October 2010. The matter is currently pending a hearing date for the borrower's appeal.

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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 filed the appeal on 4 June 2010 against the said decision.

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 Company’s striking out appeal was dismissed on 3 April 2012. The matter is now fixed for case management on 4 October 2012.

A14. Acquisition/Disposal of Property, Plant and Equipment

	6 months ended 30/6/2012 RM’000
Additions	
Building renovation	1,673
Furniture & equipment	940
Motor Vehicle	189
Data processing equipment	1,273
IT related systems	25,980
	30,055
Disposals	
Building Renovation	(1,212)
Furniture & equipment	(8)
Motor vehicle	(115)
	(1,335)

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A15. Significant Related Party Transactions

	Quarter		Cumulative	
	Current	Preceding	Current Year	Preceding
	Quarter	Quarter	To Date	Year To Date
	30/6/2012	31/3/2012	30/6/2012	30/6/2011
	RM'000	RM'000	RM'000	RM'000
Transactions with Employees Provident Fund Board, the ultimate holding body				
Interest on securitised financing	5,844	6,188	12,032	555
Rental paid	<u>72</u>	<u>72</u>	<u>144</u>	<u>140</u>

A16. Capital Commitments

As at 30 June 2012, there were no commitments for the purchase of property, plant and equipment and software other than those stated below:

	RM'000
• Approved and contracted for	68,000
• Approved but not contracted for	<u>34,500</u>
	<u>102,500</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 Period-to-date

The Group profit before taxation for the six (6) months period ended 30 June 2012 of RM233.099 million increased by RM36.140 million or 18.3% as compared to the previous year's corresponding period profit before taxation of RM196.959 million. The increase was mainly due to higher income from Islamic banking operation via the expansion of personal financing and higher net interest income from conventional business.

Performance of the respective operating business segments for the period ended 30 June 2012 as compared to the previous year's corresponding period is analysed as follows:

- 1) Personal financing – The higher gross income from personal financing was partially reduced by higher collective assessment impairment due to increasing business volume and lower other fee based income due to promotional transfer packages.
- 2) Mortgage loans and financing – The higher gross income from mortgage loans and financing was partially reduced by higher collective assessment impairment allowances due to increasing loans and financing base.
- 3) Corporate loans and financing – The higher gross income from corporate loans and financing was mainly due to higher disbursements. The individual assessment impairment allowances for the current period was lower compared to the previous year's corresponding period.
- 4) Auto finance – The Group only started disbursements for this new product in the first quarter of 2012. Hence, 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 2nd quarter 2012 of RM122.629 million increased by RM12.159 million or 11% as compared to the preceding quarter profit before taxation of RM110.470 million. The increase in profit in the current quarter was mainly due to higher income from Islamic operations and higher net interest income from conventional business. These were partially offset by higher allowance for impairment losses on loans, advances and financing, higher other operating expenses and lower other operating income.

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B3. Prospects for 2012

Brief Overview of the Malaysian Economy

Banking System: Financial stability remained intact throughout the second quarter of 2012, underpinned by strong capitalisation of financial institutions and orderly financial market conditions. Financial markets continued to demonstrate strong capacity to withstand external shocks and volatility arising from the escalation of sovereign risk in the Euro area.

The banking sector remained resilient during the quarter, amid sustained profitability and ample liquidity. Capitalisation of the banking sector remained stable with the core capital ratio and risk-weighted capital ratio at 12.9% and 14.7% respectively. Similarly, the insurance sector remained resilient with a strong capital adequacy ratio of 216.7%.

(Extracted from Bank Negara Malaysia Economic and Financial Developments in Malaysia Report in the Second Quarter 2012, dated 15 August 2012)

Group Prospect

The continued growth in earnings in the 2nd quarter 2012 was attributed to the Group's efforts to increase its loans in the retail segment. The Group has launched several new financial products going into the first half of 2012. The Group continues to give focus on fee-based income to further enhance profitability. New products and services to be offered will be supplemented by our continuous effort to further improve the customer service level.

Barring any unforeseen circumstances, the Group expects to record satisfactory performance in 2012.

B4. Variance from Profit Forecast and Profit Guarantee

None.

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B5. Taxation

	Quarter		Cumulative	
	Current Quarter 30/6/2012 RM'000	Preceding Quarter 31/3/2012 RM'000	Current Year To Date 30/6/2012 RM'000	Preceding Year To Date 30/6/2011 RM'000
Income tax:				
Current income tax	27,327	31,073	58,400	49,945
Deferred tax:				
Relating to origination and reversal of temporary differences	(19)	(18)	(37)	(37)
	<u>27,308</u>	<u>31,055</u>	<u>58,363</u>	<u>49,908</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 25%) 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.

B8. Status of Corporate Proposals

None.

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B9. Borrowings and Debts

Borrowings of the Group as at 30 June 2012 were as follows:

	30 June 2012 RM'000	31 December 2011 RM'000
Short term bank borrowings	<u>860,647</u>	<u>100,044</u>
Bai Al-Inah Islamic financing facility (secured):		
- One year or less	100,000	100,000
- More than one year	<u>301,346</u>	<u>351,632</u>
Total	<u>401,346</u>	<u>451,632</u>
Recourse obligation on loans sold to Cagamas Berhad (secured):		
- One year or less	88,978	88,978
- More than one year	<u>1,807,952</u>	<u>1,844,406</u>
Total	<u>1,896,930</u>	<u>1,933,384</u>

All borrowings are denominated in Ringgit Malaysia.

B10. Off Balance Sheet Financial Instruments

None.

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B11. Realised and Unrealised Profits and Losses

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

	Cumulative	
	Group 30 June 2012 RM'000	Group 31 December 2011 RM'000
Total accumulated losses of the Group:		
- Realised	(1,093,745)	(1,172,455)
- Unrealised in respect of deferred tax recognised in the income statement	37	(2,525)
Total Group accumulated losses as per consolidated accounts	<u>(1,093,708)</u>	<u>(1,174,980)</u>
Add: Consolidated adjustments	<u>486,306</u>	<u>459,150</u>
	<u>(607,402)</u>	<u>(715,830)</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.

B12. Material Litigation

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

B13. Dividends Proposed

The Board of Directors has declared an interim cash dividend of 6.0% less 25% income tax (4.5 sen net per ordinary share) for the financial year ending 31 December 2012. Based on the issued and paid up share capital as at 27 August 2012 of 1,232,075,251 ordinary shares of RM1.00 each, the total net dividend payment would amount to RM55,443,386.

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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 period by the weighted average number of ordinary shares in issue during the financial period.

	Quarter		Cumulative	
	Current Quarter 30/6/2012	Preceding Quarter 31/3/2012	Current Year to Date 30/6/2012	Preceding Year to Date 30/6/2011
Net profit attributable to shareholders for the period (RM'000)	93,653	79,415	173,068	146,527
Weighted average number of ordinary shares in issue ('000)	1,215,504	1,215,502	1,215,504	743,869
Basic earnings per share (sen)	<u>7.70</u>	<u>6.53</u>	<u>14.24</u>	<u>19.70</u>

Diluted

For the purpose of calculating diluted earnings per share, the net profit for the period 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 30/6/2012	Preceding Quarter 31/3/2012	Current Year to Date 30/6/2012	Preceding Year to Date 30/6/2011
Net profit attributable to shareholders for the period (RM'000)	93,653	79,415	173,068	146,527
Weighted average number of ordinary shares in issue ('000)	1,215,504	1,215,502	1,215,504	743,869
Weighted average effect of dilution on ESOS ('000)	408	3,203	408	119
Weighted average effect of dilution on Warrants ('000)	<u>108,277</u>	<u>279,291</u>	<u>108,277</u>	<u>226,616</u>
Adjusted weighted average number of ordinary shares in issue ('000)	<u>1,324,189</u>	<u>1,497,996</u>	<u>1,324,189</u>	<u>970,604</u>
Diluted earnings per share (sen)	<u>7.07</u>	<u>5.30</u>	<u>13.07</u>	<u>15.10</u>

Note:

The lower basic and diluted earnings per share for the current period as compared to the previous year corresponding period was mainly due to the higher weighted average number of ordinary shares in issue. The increase was mainly due to the rights issue exercise completed on 7 June 2011 which resulted in the issuance of 506,424,813 units of ordinary shares at RM1 per share.

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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 30 August 2012.

BY ORDER OF THE BOARD

Koh Ai Hoon
Tong Lee Mee
Joint Company Secretaries
Kuala Lumpur
30 August 2012