

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 JUNE 2011

A1. Accounting Policies and Method of Computation

The interim report is prepared in accordance with FRS 134, Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad, and should be read in conjunction with the Group's financial statements for the financial year ended 31 December 2010.

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the financial statements for the year ended 31 December 2010, except for the adoption of the following Financial Reporting Standards ("FRS"), Amendments to FRSs, IC Interpretations and Technical Release ("TR"):

Amendments to FRS 132	Financial Instruments: Presentation – Classification of Rights Issues
FRS 1	First-time Adoption of Financial Reporting Standards
FRS 3	Business Combinations
FRS 127	Consolidated and Separate Financial Statements
IC Interpretation 12	Service Concession Arrangements
Amendments to FRS 2	Share-based Payment
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 138	Intangible Assets
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 4	Determining whether an Arrangement contains a Lease
Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters and Additional Exemptions for First-time Adopters
Amendments to FRS 7	Improving Disclosures about Financial Instruments
TR i-4	Shariah Compliant Sale Contracts
Amendments to FRSs contained in the document entitled "Improvements to FRSs (2010)"	

The adoption of the revised FRS 3 and FRS 127, changes the accounting for business combinations and the preparation of consolidated financial statements of the Group. The main change introduced under the revised FRS 127 will be the accounting for changes in ownership interest in a subsidiary, where changes in ownership which do not result in the loss of control are now accounted for within equity instead of the income statement. Where changes in ownership interest result in loss of control, any remaining interest is re-measured at fair value and a gain or loss is recognised in the income statement. Minority interest is now referred to as "non-controlling interest". All total comprehensive income is proportionately allocated to non-controlling interest, even if it results in the non-controlling interests having a deficit balance.

The revised FRS 3 introduces the option, on an acquisition-by-acquisition basis, to measure non-controlling interest in a business combination either at fair value or at the non-controlling interest's proportionate share of the net identifiable assets acquired. Goodwill is measured as the difference between the aggregate of the fair value of consideration transferred, any non-controlling interest in the acquiree and the fair value at acquisition date of any previously held equity interest in the acquiree, and the net identifiable assets acquired.

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A1. Accounting Policies and Method of Computation (continued)

Any negative goodwill (i.e. bargain purchase) is recognised in the income statement. Any consideration transferred in a business combination is measured at fair value as at the acquisition date. There is no financial impact immediately upon adoption of these two accounting standards as they both only have prospective effect, and hence their adoption will only have impact on future acquisitions of the Group.

The adoption of the Amendments to FRS 7, which promotes enhanced disclosures on fair value measurement of financial instruments via the introduction of the concept of the fair value hierarchy, will only affect disclosures and will not have any financial impact on the results of the Group. The adoption of the other FRSs, Amendments to FRSs, IC Interpretations and Technical Release above generally did not have any material impact on the financial results of the Group, as they mainly deal with accounting policies affecting transactions which do not form part of the Group's normal business operations or transactions where the Group only has minimal exposure.

The following FRS and IC Interpretations have been issued by the MASB but are not yet effective, and have yet to be adopted by the Group:

Effective for annual periods commencing on or after 1 July 2011:

IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
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Effective for annual periods commencing on or after 1 January 2012:

FRS 124	Related Party Disclosures
IC Interpretation 15	Agreements for the Construction of Real Estate

A2. Audit Report of Preceding Financial Year Ended 31 December 2010

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 period.

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 period.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
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A6. Loans, Advances and Financing

	Group	
	30 Jun 2011	31 Dec 2010
	RM'000	RM'000
Personal financing	6,697,731	3,987,460
Mortgage loans and financing	5,784,296	5,821,275
Corporate loans and financing	4,316,288	4,688,898
Gross loans, advances and financing	16,798,315	14,497,633
Allowance for impairment:		
- Collectively assessed	(707,804)	(637,309)
- Individually assessed	(2,862,159)	(3,153,794)
Net loans, advances and financing	13,228,352	10,706,530

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

	Group	
	30 Jun 2011	31 Dec 2010
	RM'000	RM'000
Balance as at 1 January	4,907,989	5,125,494
Classified as impaired during the year	349,919	695,423
Reclassified as non-impaired	(471,235)	(591,606)
Amount recovered	(25,237)	(72,499)
Amount written off	(338,582)	(248,823)
Balance as at end of year	4,422,854	4,907,989
Allowance for impairment	(2,809,317)	(3,225,653)
Net impaired loans, advances and financing	1,613,537	1,682,336
Net impaired loans as a percentage of net loans, advances and financing	12%	16%

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 rights issue, 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 period.

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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 2011	700,298	700,298	497,252
Issued at RM1.45 per share pursuant to ESOS	8,710	8,710	5,800
Issued at RM1.00 per share pursuant to rights issue	506,425	506,425	-
Issued at RM1.00 per share pursuant to warrants	35	35	7
Expenses relating to rights issue	-	-	(4,326)
At 30 June 2011	1,215,468	1,215,468	498,733

A8. Dividends Paid

The first and final dividend of 9.0% less 25% taxation (6.75 sen net per ordinary share) in respect of the financial year ended 31 December 2010 of RM47,606,468 was paid on 25 April 2011. The dividend payment was approved by the shareholders of the Company on 31 March 2011.

A9. Segmental Information on Revenue and Results

Segmental reporting is not analysed by geographical locations due to the fact that the Group's activities are pre-dominantly in Malaysia.

	Financing RM'000	Hotel Operations RM 000	Eliminations RM'000	Consolidated RM'000
3 months ended 30 Jun 11				
External sales	304,385	3,000	11,178	318,563
Intersegment transactions	9,065	-	(9,065)	-
Total revenue	313,450	3,000	2,113	318,563
Segment results	97,779	(788)	8,942	105,933
Unallocated income (net of cost)				-
Profit from operations				105,933
3 months ended 30 Jun 10				
External sales	168,861	2,967	4,301	176,129
Intersegment transactions	3,210	-	(3,210)	-
Total revenue	289,668	2,967	1,091	293,726
Segment result	41,008	(745)	9,226	49,489
Unallocated income (net of cost)				-
Profit from operations				49,488

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A9. Segmental Information on Revenue and Results (continued)

	Financing RM'000	Hotel Operations RM 000	Eliminations RM'000	Consolidated RM'000
6 months ended 30 Jun 11				
External sales	602,687	5,778	21,733	630,198
Intersegment sales	17,761	-	(17,761)	-
Total revenue	<u>620,448</u>	<u>5,778</u>	<u>3,972</u>	<u>630,198</u>
Segment results	180,527	(2,042)	18,474	196,959
Unallocated income (net of cost)				-
Profit from operations				<u>196,959</u>
6 months ended 30 Jun 10				
External sales	331,290	5,621	8,340	345,251
Intersegment sales	6,442	-	(6,442)	-
Total revenue	<u>565,644</u>	<u>5,621</u>	<u>1,898</u>	<u>573,163</u>
Segment result	76,070	(1,983)	18,579	92,666
Unallocated income (net of cost)				-
Profit from operations				<u>92,666</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.

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

	As at 30/06/2011 RM'000	As at 31/12/2010 RM'000
Fully secured:		
Financial guarantee to secure payments by borrowers	<u>17,438</u>	<u>19,405</u>

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
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A13. Contingent Liabilities (continued)

(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 Court had fixed 14 May 2010 for further case management and the trial dates were fixed from 21 June 2010 to 25 June 2010. However, the above mentioned dates were vacated as the contractor's solicitor had made an oral application for a stay of trial pending disposal of the contractor's appeal to amend the Writ Summons and Statement of Claim to include negotiations between the contractor and the Company's borrower. The contractor's application to amend the statement of claim was dismissed on 22 June 2010 and the Court fixed 24 May 2011 for case management.

The court has fixed 10 November 2011 for further case management.

- (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 with the Court of Appeal on 25 October 2010.

The matter is currently pending a hearing date for the borrower's appeal.

- (iii) A former borrower of the Company instituted a civil suit against the Company for an alleged breach of facility agreement and is claiming damages amounting to RM5 million with interest and costs thereon.

The Company had on 22 May 2009 filed a Notice of Appeal following the High Court's dismissal of the Company's application to hold a trial of preliminary issues. The Company filed an application for stay of proceedings pending the outcome of the Company's appeal. The stay application was dismissed on 8 February 2011 with no order as to costs and full trial dates were fixed for 13 and 16 May 2011.

On 22 March 2011, the Court of Appeal allowed the Company's appeal with liberty to propose further questions to the High Court for determination.

The matter came up for hearing on 13 May 2011 and was fixed for decision on 30 May 2011 whereby the Plaintiff's claim was dismissed with cost of RM15,000. The Plaintiff has since lodged an appeal to the Court of Appeal. The Plaintiff's appeal is pending a hearing date.

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A13. Contingent Liabilities (continued)

(b) Material Litigations (continued)

- (iv) A former borrower of the Company has instituted a civil suit against the Company for an alleged breach of facility agreement and is claiming damages amounting to RM16.136 million with interest and costs thereon.

On 6 May 2009, the Court allowed the Company's application to strike out the borrower's claim with costs.

On 29 May the borrower's solicitors filed a Notice of Appeal to the Court of Appeal which came up for hearing on 22 March 2011 whereby the Court of Appeal dismissed the borrower's appeal with costs of RM10,000.00.

- (vi) A third party and its holding company (collectively "the Plaintiffs") have instituted a civil suit against the Company and its subsidiary (collectively "the Company") for an alleged breach of facility agreement. The Company has in response thereto filed its defence and a counterclaim against the Plaintiffs.

The Company then filed an application to strike out the Plaintiffs' suit and this was dismissed with costs by the High Court on 24 May 2010. The Company filed an appeal on 4 June 2010 against the said decision ("the Company's striking out appeal").

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 main suit is fixed for case management on 16 August 2011.

The Company's security for costs appeal is fixed for case management on 16 August 2011.

The Company's striking out appeal is fixed for hearing on 10 October 2011.

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A14. Acquisition/Disposal of Property, Plant and Equipment

6 months ended 30/06/2011	
RM'000	
Additions	
Building Renovation	488
Furniture & Equipment	527
Data Processing Equipment	403
	<u>1,418</u>
Disposals	
Freehold land	10,426
Buildings	8,031
Motor Vehicle	9
	<u>18,466</u>

A15. Significant Related Party Transactions

	Quarter		Cumulative	
	Current Quarter	Preceding Quarter	Current Year To Date	Preceding Year To Date
	30/06/2011 RM'000	31/03/2011 RM'000	30/06/2011 RM'000	30/06/2010 RM'000
Transactions with Employees				
Provident Fund Board, the ultimate holding body				
Interest on debenture loans	555	-	555	639
Rental paid	71	69	140	141
Agency fees received	-	-	-	1
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>

A16. Capital Commitments

As at 30 June 2011, there were no commitments for the purchase of property, plant and equipment other than those stated below:

	RM'000
Property, plant and equipment:	
• Approved but not contracted for	<u>56,457</u>

A17. Impairment Loss

There were no significant impairment losses in respect of financial assets for the current quarter, except for the impairment losses on loans, advances and financing as disclosed in note A6 above.

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BMSB LISTING REQUIREMENTS – DISCLOSURE REQUIREMENTS AS PART A OF APPENDIX
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B1. Comparison with the Preceding Quarter's Results

The Group profit before taxation for the 2nd quarter 2011 of RM105.933 million increased by RM14.907 million or 16% as compared to the preceding quarter profit before taxation of RM91.026 million. The increase in profit was mainly due to higher income from Islamic banking operations and conventional business net interest income, lower other operating expenses and lower impairment allowances on loans. These were partially set off by lower other income in the current quarter.

B2. Review of Performance

The Group profit before taxation for the six (6) months period ended 30 June 2011 of RM196.959 million increased by RM104.293 million or 113% as compared to the preceding year's corresponding period profit before taxation of RM92.666 million. The increase was mainly due to higher income from Islamic banking operation via the expansion of personal financing. These were partly set off by higher operating expenses and higher loan loss impairment.

B3. Prospects for 2011

Brief Overview of the Malaysian Economy

In the domestic economy, the latest indicators point to a moderation in growth in the second quarter, due primarily to slower external demand, greater than expected disruptions in the global manufacturing supply chain and lower than projected public sector investment. Private consumption and investment have, however, continued to be important drivers of growth. Going forward, growth is expected to improve, underpinned by continued strength in private consumption and private investment. This growth prospect however, could be affected by the heightened external risks.

Domestic headline inflation increased to 3.3% in May on account of higher food and fuel prices. Supply factors continue to be the key determinant affecting consumer prices with global commodity and energy prices projected to remain elevated. There are also some signs that domestic demand factors could exert upward pressure on prices in the second half of the year.

(Bank Negara Malaysia Monetary Policy Statement dated 7 July 2011)

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Brief Overview of the Malaysian Financial Sector

The continued resilience of the banking sector was supported by strong capital, stable asset quality and ample liquidity. To further enhance the development and competitiveness of the financial sector, five (5) new commercial banking licences were issued in June 2010 following the liberalization measures announced in April 2009. These banks will contribute to the diversity of the financial services industry and support new areas of growth, including green technology as well as facilitate international trade, attract investments into Malaysia and create greater employment opportunities in the financial sector.

In 2011, value-added of the service sector is envisaged to expand 5.3% (2010: 6.5%), supported by steady domestic economic and trade-related activities. All sub-sectors are expected to register growth, led by the wholesale and retail trade, communication as well as finance and insurance sub-sectors. The contribution of the sector is expected to remain at 57.3% of gross domestic product. The services sector is set for higher growth with the roll-out of programmes and initiatives under the seven services-related National Key Economic Areas, namely financial, wholesale and retail, information and communication technology, tourism, health, education and business services.

(Source: Economic Report 2010/2011, Ministry of Finance Malaysia)

Group Prospect

The continued strong earnings in the 2nd quarter 2011 were attributed to the Group's continuous efforts to increase its loans in the retail segment. The Group is expected to launch several new financial products, focus on fee-based income and to improve customer service level.

Barring any unforeseen circumstances, the Group expects to continue to record satisfactory performance in 2011.

B4. Variance from Profit Forecast and Profit Guarantee

None.

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B5. Taxation

	Quarter		Cumulative	
	Current Quarter 30/06/2011 RM'000	Preceeding Quarter 31/03/2011 RM'000	Current Year To Date 30/06/2011 RM'000	Preceeding Year To Date 30/06/2010 RM'000
Income tax:				
Current income tax	27,705	22,240	49,945	2
Deferred tax:				
Relating to origination and reversal of temporary differences	<u>(19)</u>	<u>(18)</u>	<u>(37)</u>	<u>(37)</u>
	<u>27,686</u>	<u>22,222</u>	<u>49,908</u>	<u>(35)</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2010: 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.

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B8. Status of Corporate Proposals

Item	Announcement Date	Proposal	Status
(I)	14 February 2011 / 21 April 2011	Proposed renounceable rights issue of up to 506,985,548 new ordinary shares of RM1.00 each in Malaysia Building Society Berhad ("MBSB") ("MBSB Shares") ("Rights Shares") at an issue price of RM1.00 for each Rights Share on the basis of 5 Rights Shares for every 7 existing MBSB Shares held together with up to 506,985,548 free detachable warrants ("Warrants") on the basis of 1 Warrant for every 1 Rights Share subscribed ("Rights Issue with Warrants").	Proposal completed. The 506,424,813 new ordinary shares of RM1.00 each in MBSB and 506,424,813 new Warrants issued pursuant to the Rights Issue with Warrants were admitted to the Official List of Bursa Malaysia Securities Berhad on 7 June 2011.
(II)	14 February 2011	Proposed change in the composition and increase in the authorised share capital of MBSB.	Proposal completed. Obtained shareholders approval on 31 March 2011.
(III)	14 February 2011	Proposed amendments to the memorandum and articles of association of MBSB.	Proposal completed. Obtained shareholders approval on 31 March 2011.

B9. Borrowings and Debts

Borrowings and debts securities of the Group as at 30 June 2011 were as follows:

RM'000

Non-secured short term borrowings	300,092
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All borrowings and debts securities are denominated in Ringgit Malaysia.

B10. Off Balance Sheet Financial Instruments

None.

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

	Group 30 June 2011 RM'000	Cumulative Group 31 December 2010 RM'000
Total accumulated losses of the Group:		
- Realised	(1,195,795)	(1,274,713)
- Unrealised in respect of deferred tax recognised in the income statement	(37)	(1,552)
Total Group accumulated losses as per consolidated accounts	<u>(1,195,832)</u>	<u>(1,276,265)</u>
Add: Consolidated adjustments	445,939	427,428
	<u>(749,893)</u>	<u>(848,837)</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 recommended an interim cash dividend of 5.0% less 25% income tax (3.75 sen net per ordinary share) on the 1,215,473,094 ordinary shares of RM1.00 each (as at 20 July 2011) amounting to RM45,580,241.02 for the financial year ending 31 December 2011.

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
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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 30/06/2011	Preceding Quarter 31/03/2011	Current Year to Date 30/06/2011	Preceding Year to Date 30/06/2010
Net profit attributable to shareholders for the period (RM'000)	78,247	68,280	146,527	92,701
Weighted average number of ordinary shares in issue ('000)	743,869	700,249	743,869	700,172
Basic earnings per share (sen)	<u>10.52</u>	<u>9.75</u>	<u>19.70</u>	<u>13.24</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 30/06/2011	Preceding Quarter 31/03/2011	Current Year to Date 30/06/2011	Preceding Year to Date 30/06/2010
Net profit attributable to shareholders for the period (RM'000)	78,247	68,280	146,527	92,701
Weighted average number of ordinary shares in issue ('000)	743,869	700,249	743,869	700,172
Weighted average effect of dilution on ESOS ('000)	119	5,300	119	-
Weighted average effect of dilution on Warrants ('000)	<u>226,616</u>	<u>-</u>	<u>226,616</u>	<u>-</u>
Adjusted weighted average number of ordinary shares in issue ('000)	<u>970,604</u>	<u>705,549</u>	<u>970,604</u>	<u>700,172</u>
Diluted earnings per share (sen)	<u>8.06</u>	<u>9.68</u>	<u>15.10</u>	<u>13.24</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 2 August 2011.

BY ORDER OF THE BOARD

Koh Ai Hoon
Tong Lee Mee
Joint Company Secretaries
Kuala Lumpur
2 August 2011