

**MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)**  
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 JUNE 2010

**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 2009.

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 2009, except for the adoption of the following Financial Reporting Standards ("FRS"), amendments to FRSs, IC Interpretations and Technical Release ("TR"):

FRS 139	Financial Instruments: Recognition and Measurement
FRS 4	Insurance Contracts
FRS 7	Financial Instruments: Disclosures
FRS 101	Presentation of Financial Statements
IC Interpretation 9	Reassessment of Embedded Derivatives
Amendments to FRS 139	Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9 Reassessment of Embedded Derivatives
Amendments to FRS 139	Financial Instruments: Recognition and Measurement
TR <i>i-3</i>	Presentation of Financial Statements of Islamic Financial Institutions
Amendments to FRS 132	Financial Instruments: Presentation

The adoption of FRS 4 did not have any material impact on the financial results of the Group as only an immaterial amount of revenue is generated from the insurance business. The adoption of FRS 7, FRS 101, TR *i-3* and Amendments to FRS 132 also did not impact the financial results of the Group as the changes introduced are presentational in nature. The principal effects of the changes in accounting policies arising from the adoption of FRS 139 and its related amendments to FRSs and IC Interpretations are disclosed in Note A18.

The following revised FRSs, new IC Interpretations and Amendments to FRSs have been issued by the MASB and are effective for annual periods commencing on or after 1 July 2010, and have yet to be adopted by the Group:

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
IC Interpretation 15	Agreements for the Construction of Real Estate
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17	Distributions of Non-cash Assets to Owners
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
Amendment to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First- time Adopters
Amendments to FRS 7	Improving Disclosures about Financial Instruments

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**A2. Audit Report of Preceding Financial Year Ended 31 December 2009**

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 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.

**A6. Loans, Advances and Financing**

	<b>Group</b>	
	<b>30/06/2010</b>	<b>31/12/2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Gross loans, advances and financing	13,549,672	11,792,562
Interest/Income-in-suspense	-	(2,966,966)
Allowance for impaired loans, advances and financing:		
- Collective assessment impairment allowance	(589,944)	-
- Individual assessment impairment allowance	(3,501,354)	-
- General	-	(83,224)
- Specific	-	(623,920)
Net loans, advances and financing	<u>9,458,374</u>	<u>8,118,452</u>

**A7. Debts and Equity Securities**

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 quarter.

**A8. Dividends Paid**

The first and final dividend of 4% less 25% taxation in respect of the financial year ended 31 December 2009 of RM21,005,146 was paid on 27 May 2010. The dividend payment was approved by the shareholders of the Company on 29 April 2010.

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**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.

	<b>Financing RM'000</b>	<b>Hotel Operations RM 000</b>	<b>Eliminations RM'000</b>	<b>Consolidated RM'000</b>
<b>3 months ended 30 Jun 10</b>				
External sales	286,458	2,967	4,301	293,726
Intersegment transactions	3,210	-	(3,210)	-
Total revenue	<u>289,668</u>	<u>2,967</u>	<u>1,091</u>	<u>293,726</u>
Segment results	41,007	(745)	9,226	49,488
Unallocated income (net of cost)				-
Profit from operations				<u>49,488</u>
<b>3 months ended 30 Jun 09</b>				
External sales	105,862	2,919	3,838	112,619
Intersegment transactions	3,709	-	(3,709)	-
Total revenue	<u>109,571</u>	<u>2,919</u>	<u>129</u>	<u>112,619</u>
Segment result	6,250	(783)	6,968	12,435
Unallocated income (net of cost)				-
Profit from operations				<u>12,435</u>
<b>6 months ended 30 Jun 10</b>				
External sales	559,202	5,621	8,340	573,163
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 results	76,070	(1,983)	18,579	92,666
Unallocated income (net of cost)				-
Profit from operations				<u>92,666</u>
<b>6 months ended 30 Jun 09</b>				
External sales	203,756	5,494	7,540	216,790
Intersegment sales	7,592	-	(7,592)	-
Total revenue	<u>211,348</u>	<u>5,494</u>	<u>(52)</u>	<u>216,790</u>
Segment result	8,089	(1,886)	16,021	22,224
Unallocated income (net of cost)				-
Profit from operations				<u>22,224</u>

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

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

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**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**

	<b>As at 30/06/2010 RM'000</b>	<b>As at 31/12/2009 RM'000</b>
<b>Fully secured:</b>		
Financial guarantee to secure payments by borrowers	40,096	47,430

**(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 has fixed 14 May 2010 for further Case Management and the trial dates have been fixed from 21 June 2010 to 25 June 2010.

However, the above mentioned dates had been vacated as the contractor's solicitor 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.

- (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.

The matter is fixed for trial on 27 September 2010.

- (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.

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The Company had on 22 May 2009 filed a Notice of Appeal following the Court's dismissal of the Company's application to hold a trial of preliminary issue. No date has been fixed by the Court of Appeal. The Court has yet to fix a date for Case Management.

- (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.

The borrower's solicitors have filed a Notice of Appeal to the Court of Appeal on 29 May 2009. No hearing date has been fixed as yet.

- (v) The Company had instituted civil suits against a borrower for its failure to repay term loans amounting RM239 million in relation to uncompleted development projects in Melaka ("Melaka Project") and Penang ("Penang Project").

The borrower has subsequently filed a counterclaim seeking damages amounting to RM453 million against the Company's subsidiary for an alleged breach of contract.

For the Melaka Project, the Court has fixed Case Management on 20 September 2010 and Trial from 8 to 12 November 2010.

For the Penang Project, the Company's solicitors have filed a Notice of Appeal to the Court on 15 April 2009 against the Judge in Chambers' decision of the Company's application for Summary Judgment on 13 April 2009, which was dismissed with costs.

On 21 June 2010, the Court allowed the Company's striking out application against the borrower's counter claim with costs. On the same day, the Court also dismissed the Company's appeal for Summary Judgment application with costs.

- (vi) A third party and its holding company (collectively "the Plaintiffs") have instituted a civil suit against the Company and its subsidiaries 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. This matter is now fixed for case management on 6 September 2010.

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The Company had also filed an application for security for costs against the Plaintiff which came up for case management on 14 July 2010. The Court has fixed 11 October 2010 for case management.

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**

<b>6 months ended 30/06/2010</b>	
<b>RM'000</b>	
Acquisition	
Renovation	229
Furniture & Equipment	490
Computer Hardware	69
Motor Vehicle	77
	865
Disposal	
Freehold land	162
Buildings	144
Furniture & Equipment	51
Computer Hardware	512
	869

**A15. Significant Related Party Transactions**

	<b>Quarter</b>		<b>Cumulative</b>	
	<b>Current Quarter 30/06/2010 RM'000</b>	<b>Preceding Quarter 31/03/2010 RM'000</b>	<b>Current Year To Date 30/06/2010 RM'000</b>	<b>Preceding Year To Date 30/06/2009 RM'000</b>
Transactions with Employees				
Provident Fund Board, the ultimate holding body				
Interest on debenture loans	271	368	639	1,963
Rental paid	66	75	141	149
Agency fees received	-	1	1	2
	-	1	1	2

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**A16. Capital Commitments**

As at 30 June 2010, there were no commitments for the purchase of property, plant and equipment other than those stated below:

	<b>RM'000</b>
Property, plant and equipment:	
• Approved but not contracted for	11,845

**A17. Impairment Loss**

There was no significant impairment loss for the current quarter.

**A18. Change in Accounting Policies**

The adoption of new FRSs, amendments to FRSs, IC Interpretations and TR during the financial period have resulted in the following changes in accounting policies:

- i) FRS 139 Financial Instruments: Recognition and Measurement
- ii) IC Interpretation 9 Reassessment of Embedded Derivatives
- iii) Amendments to FRS 139 Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9 Reassessment of Embedded Derivatives
- iv) Amendments to FRS 139 Financial Instruments: Recognition and Measurement

FRS 139 establishes the principles for the recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting. The full adoption of FRS 139 on 1 January 2010 has resulted in the following material changes in accounting policies as follows:

1) Impairment of Loans and Advances

The adoption of FRS 139 has resulted in a change in the accounting policy relating to the assessment for impairment of financial assets, particularly loans and advances. The existing accounting policies relating to the assessment of impairment of other financial assets of the Group are largely in line with those of FRS 139. Prior to the adoption of FRS 139, Specific allowances are made for bad and doubtful debts which have been individually reviewed and specifically identified as bad and doubtful. In the case of loans advanced for joint venture developments where the actual moratorium period is six (6) months or more and where the collateral valued on an estimated realisable basis is lower than the principal amount outstanding, specific allowances equivalent to the deficit are made. In addition, a general allowance based on a percentage of loan receivable is also made to cover possible losses which are not specifically identified. An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of collateral, if any, where in the judgement of the

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management, there is no prospect of recovery. Upon the adoption of FRS 139, the Group assesses at the end of each reporting period whether there is any objective evidence that a loan or group of loans is impaired. The loan or group of loans is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the loan (an incurred 'loss event') and that the loss event has an impact on future estimated cash flows of the loan or group of loans that can be reliably estimated.

The Group first assesses individually whether objective evidence of impairment exists individually for loans which are individually significant, and collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows. The carrying amount of the loans is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

The changes in accounting policy above have been accounted for prospectively, in line with the transitional arrangements under para 103AA of FRS 139, with adjustments to the carrying values of financial assets affecting the income statement as at the beginning of the current financial period being adjusted to opening retained profits.

2) Interest Income Recognition

FRS 139 prescribes that loans and receivables are measured at amortised cost using the effective interest method instead of the interest income being recognised based on contractual interest rates. Upon the full adoption of FRS 139 on 1 January 2010, interest income is recognised using effective interest rates ("EIR"), which is the rate that exactly discounts estimated future cash receipts through the expected life of the loan or, when appropriate, a shorter period to the net carrying amount of the loan. This change in accounting policy has been accounted for prospectively in line with the transitional arrangements under para 103AA of FRS 139.

Prior to the adoption of FRS 139, interest accrued and recognised as income prior to the date that a loan is classified as non-performing is reversed out of income and set off against the interest receivable account in the statement of financial position. Thereafter, interest on the non-performing loan is recognised as income on a cash basis. Upon adoption of FRS 139, once a loan has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

3) Comparative Figures – FRS 101 Presentation of Financial Statements

As a result of the adoption of the revised FRS 101, the Group income statements for the comparative financial period ended 31 March 2009 have been re-presented as displaying components of profit or loss and comprehensive income. All non-owner



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changes in equity which were previously presented in the statement of changes in equity are now included in the statement as other comprehensive income. Consequently, components of comprehensive income are not presented in the statement of changes in equity. Since these changes only affect presentation aspects, there is no impact on earnings per ordinary share.

4) Adjustments due to Change in Accounting Policies

The changes in accounting policies as described above which resulted in adjustments to opening reserves of the Group are as follows:

	<b>RM'000</b>
Effects on accumulated losses:	
At 1 January 2010, as previously stated	(675,101)
Effects of adoption of FRS 139	<u>(160,554)</u>
At 1 January 2010, as restated	<u><u>(835,655)</u></u>
Effects on total equity:	
At 1 January 2010, as previously stated	552,564
Effects of adoption of FRS 139	<u>(160,554)</u>
At 1 January 2010, as restated	<u><u>392,010</u></u>

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

**B1. Comparison with the Preceding Quarter's Results**

The Group profit before taxation for the 2<sup>nd</sup> quarter 2010 of RM49.488 million increased by RM6.309 million or 14.6% as compared to the preceding quarter profit before taxation of RM43.179 million. The higher profit was mainly due to higher net interest income and lower impairment losses on loans, advances and financing. These were partially offset by higher operating costs due to increase in business volume.

**B2. Review of Performance**

The Group profit before taxation for the 6 months period ended 30 June 2010 of RM92.666 million increased by RM70.442 million or 317% as compared to the preceding year corresponding period profit before taxation of RM22.224 million. The increase was mainly due to higher loan and financing income, especially, from the expansion of personal financing and higher other operating income from personal financing activities. These were partly set off by higher operating expenses and higher loan loss impairment.

**B3. Prospects for 2010**

The operating environment for financial institutions is expected to be in tandem with the growth of the Malaysian economy and will remain competitive. The Group will continue to focus on the growth of retail business whilst managing and improving assets quality, recoveries of loans and improving its efficiency, and enhancing its risk management capabilities.

Barring any unforeseen circumstances, the Group is expected to continue to record satisfactory performance in 2010.

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

None.

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**B5. Taxation**

	Quarter		Cumulative	
	Current Quarter 30/06/2010 RM'000	Preceding Quarter 31/03/2010 RM'000	Current Year To Date 30/06/2010 RM'000	Preceding Year To Date 30/06/2009 RM'000
Income tax:				
Current income tax	2	-	2	47
Tax refund	-	-	-	(19)
	<u>2</u>	<u>-</u>	<u>2</u>	<u>28</u>
Deferred tax:				
Relating origination and reversal of temporary differences	(20)	(18)	(37)	7,963
	<u>(18)</u>	<u>(18)</u>	<u>(35)</u>	<u>7,991</u>

There is no current tax charge due to utilisation of tax losses arising from the implementation of FRS139.

**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.

**B9. Borrowings and Debts**

Borrowings and debts securities of the Group as at 30 June 2010 were as follows:

	RM'000
Secured short term borrowings	25,002
Unsecured short term borrowings	100,060
	<u>125,062</u>

All borrowings and debts securities are denominated in Ringgit Malaysia.

**B10. Off Balance Sheet Financial Instruments**

None.

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**B11. Material Litigation**

The details of the pending material litigation are as per note A12 above.

**B12. Dividends Proposed**

None.

**B13. Earnings Per Share**

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

	Quarter		Cumulative	
	Current Quarter 30/06/2010 RM'000	Preceding Quarter 31/03/2010 RM'000	Current Year to Date 30/06/2010 RM'000	Preceding Year to Date 30/06/2009 RM'000
Net profit attributable to shareholders	49,506	43,197	92,701	14,233
Number of shares in issue ('000)	700,172	700,172	700,172	700,172
Basic earnings per share (sen)	<u>7.07</u>	<u>6.17</u>	<u>13.24</u>	<u>2.03</u>

**B14. 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 26 August 2010.

BY ORDER OF THE BOARD

Koh Ai Hoon  
Tong Lee Mee  
Joint Company Secretaries  
Kuala Lumpur  
26 August 2010