

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 MARCH 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 FRs, 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 FRs contained in the document entitled "Improvements to FRs (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.

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A6. Loans, Advances and Financing

	Group	
	31/03/2011	31/12/2010
	RM'000	RM'000
Gross loans, advances and financing	15,950,588	14,497,633
Allowance for impaired loans, advances and financing:		
- Collective assessment impairment allowance	(671,822)	(637,309)
- Individual assessment impairment allowance	(3,200,908)	(3,153,794)
Net loans, advances and financing	12,077,858	10,706,530

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"), 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.

	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	1,770	1,770	797
At 31 March 2011	702,068	702,068	498,049

A8. Dividends Paid

No dividends were paid in the quarter ended 31 March 2011. The dividends for financial year ended 31 December 2010 which have been approved by the shareholders of the Company on 31 March 2011, were paid on 28 April 2011.

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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.

	Financing RM'000	Hotel Operations RM 000	Eliminations RM'000	Consolidated RM'000
3 months ended 31 Mar 11				
External sales	304,344	2,778	4,513	311,635
Intersegment transactions	2,654	-	(2,654)	-
Total revenue	<u>306,998</u>	<u>2,778</u>	<u>1,859</u>	<u>311,635</u>
Segment results	82,748	(1,254)	9,532	91,026
Unallocated income (net of cost)				-
Profit from operations				<u>91,026</u>
3 months ended 31 Mar 10				
External sales	162,429	2,654	4,039	169,122
Intersegment transactions	3,232	-	(3,232)	-
Total revenue	<u>165,661</u>	<u>2,654</u>	<u>807</u>	<u>169,122</u>
Segment result	35,064	(1,238)	9,353	43,179
Unallocated income (net of cost)				-
Profit from operations				<u>43,179</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 31/03/2011 RM'000	As at 31/12/2010 RM'000
Fully secured:		
Financial guarantee to secure payments by borrowers	18,301	19,405

(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 were 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. The contractor's application to amend the statement of claim was dismissed on 22 June 2010 and the Court fixed 24 May 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 has filed an appeal on 25 October 2010. The appeal is pending hearing date.

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A13. Contingent Liabilities (continued)

(b) Material Litigations (continued)

- (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 Court's dismissal of the Company's application to hold a trial of preliminary issue. On 22 March 2011, the Court of Appeal has allowed the Company's appeal with liberty to propose further questions to the High Court for determination.

The Company has filed an application for stay of proceeding pending 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 have been fixed by the Court on 13 and 16 May 2011.

- (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. On 22 March 2011, the Court of Appeal has dismissed the borrower's appeal with costs.

- (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 subsidiaries for an alleged breach of contract in respect of the aforesaid projects.

The parties have entered into a settlement on 26 October 2010 and the above mentioned suits have all been withdrawn pursuant to the Deed of Proposed Settlement dated 26 October 2010.

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

- (vi) 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 a counterclaim in response to the suit. The Company and its subsidiary had also filed an application to strike out the Plaintiffs' suit which was dismissed with costs on 24 May 2010. The Company then subsequently filed the appeal on 4 June 2010 against the said decision. No hearing date has been fixed yet.

The Company's application for security for costs against the Plaintiffs is fixed on 18 May 2011 for decision.

As for the main suit, the Court has fixed 16 August 2011 for case management.

A14. Acquisition/Disposal of Property, Plant and Equipment

	3 months ended 31/03/2011
	RM'000
Additions	
Building Renovation	230
Furniture & Equipment	196
Data Processing Equipment	139
	565
Disposals	
Motor Vehicle	9
	9

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A15. Significant Related Party Transactions

	Quarter		Cumulative	
	Current Quarter 31/03/2011 RM'000	Preceding Quarter 31/12/2010 RM'000	Current Year To Date 31/03/2011 RM'000	Preceding Year To Date 31/03/2010 RM'000
Transactions with Employees Provident Fund Board, the ultimate holding body				
Interest on debenture loans	-	66	-	368
Rental paid	69	67	69	75
Agency fees received	-	1	-	1
	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>

A16. Capital Commitments

As at 31 March 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>44,349</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 9B

B1. Comparison with the Preceding Quarter's Results

The Group profit before taxation for the 1st quarter 2011 of RM91.026 million increased by RM18.591 million or 26% as compared to the preceding quarter profit before taxation of RM72.435 million. The increase in profit was mainly due to higher income from Islamic banking operations and higher other operating income. These were partially set off by higher impairment allowances on loans, advances and financing and higher other operating expenses in the current quarter.

B2. Review of Performance

The Group profit before taxation for the three (3) months period ended 31 March 2011 of RM91.026 million increased by RM47.848 million or 111% as compared to the preceding year's corresponding period profit before taxation of RM43.178 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 towards the continued strengthening of private investment and sustained private consumption expenditure in the first quarter. The export performance also improved, supported by regional demand. Going forward, the assessment is for the Malaysian economy to remain firmly on a steady growth path, with growth improving gradually during the course of the year. Growth will be underpinned by the firm expansion of domestic demand. Sustained employment conditions and income growth is expected to provide support to private consumption, while private investment is projected to strengthen amidst the improved investment environment. The developments in Japan are expected to have a limited impact on the overall domestic economy. Positive prospects for the region and strong demand for commodities are expected to continue to support the Malaysian economy.

Domestic headline inflation has continued to increase, rising to 3% in March to average 2.8% for the first quarter of 2011. The increase was mainly due to higher food and fuel prices. The assessment is that supply factors will continue to be a key determinant affecting consumer prices. Global commodity and energy prices are projected to remain elevated during the year, with inflation in major trading partners also expected to rise further. 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 5 May 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 strong earnings in the 1st quarter 2011 are the result of the Group's continuous efforts in executing its Business Plan to increase its loans in the retail segment. The Group is expecting to launch several new products, giving more focus on fee-based income and to increase efforts on the improvement of customer service level. Additional Sales and Service Centres and Representative Offices will be established to further extend the branch network, especially in East Malaysia and southern regions of Peninsular Malaysia.

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 31/03/2011 RM'000	Preceding Quarter 31/12/2010 RM'000	Current Year To Date 31/03/2011 RM'000	Preceding Year To Date 31/03/2010 RM'000
Income tax:				
Current income tax	22,240	61,106	22,240	-
Underprovision in prior years	-	(3,092)	-	-
	<u>22,240</u>	<u>58,014</u>	<u>22,240</u>	<u>-</u>
Deferred tax:				
Relating to origination and reversal of temporary differences	(18)	1,607	(18)	(18)
	<u>22,222</u>	<u>59,621</u>	<u>22,222</u>	<u>(18)</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.	Abridged prospectus issued on 10 May 2011 and pending completion.
(II)	14 February 2011	Proposed change in the composition and increase in the authorised share capital of MBSB.	Obtained shareholders approval on 31 March 2011 - proposal completed.
(III)	14 February 2011	Proposed amendments to the memorandum and articles of association of MBSB.	Obtained shareholders approval on 31 March 2011 - proposal completed.

B9. Borrowings and Debts

There were no borrowings or debts securities as at 31 March 2011.

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:

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B11. Realised and Unrealised Profits and Losses (continued)

	Cumulative	
	Group 31 March 2011 RM'000	Group 31 December 2010 RM'000
Total accumulated losses of the Group:		
- Realised	(1,217,493)	(1,274,713)
- Unrealised in respect of deferred tax recognised in the income statement	(18)	(1,552)
Total Group accumulated losses as per consolidated accounts	(1,217,511)	(1,276,265)
Add: Consolidated adjustments	436,978	427,428
	(780,533)	(848,837)

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

No dividends have been proposed for the quarter ended 31 March 2011.

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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 31/03/2011	Preceding Quarter 31/12/2010	Current Year to Date 31/03/2011	Preceding Year to Date 31/03/2010
Net profit attributable to shareholders for the period (RM'000)	68,280	12,814	68,280	43,197
Weighted average number of ordinary shares in issue ('000)	700,249	700,199	700,249	700,172
Basic earnings per share (sen)	9.75	1.83	9.75	6.17

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 31/03/2011	Preceding Quarter 31/12/2010	Current Year to Date 31/03/2011	Preceding Year to Date 31/03/2010
Net profit attributable to shareholders for the period (RM'000)	68,280	12,814	68,280	43,197
Weighted average number of ordinary shares in issue ('000)	700,249	700,199	700,249	700,172
Weighted average effect of dilution on ESOS ('000)	5,300	2,927	5,300	-
Adjusted weighted average number of ordinary shares in issue ('000)	705,549	703,126	705,549	700,172
Diluted earnings per share (sen)	9.68	1.82	9.68	6.17

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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 11 May 2011.

BY ORDER OF THE BOARD

Koh Ai Hoon
Tong Lee Mee
Joint Company Secretaries
Kuala Lumpur
11 May 2011