

**MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)**  
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 31 DECEMBER 2009

**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 2008.

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 2008.

The following new FRS and Interpretations were issued but not yet effective and have not been applied by the Group:

	Effective for financial periods beginning on or after
<b>FRS, Amendments to FRS and Interpretations</b>	
FRS 4: Insurance Contracts	1 January 2010
FRS 7: Financial Instruments: Disclosures	1 January 2010
FRS 8: Operating Segments	1 July 2009
FRS 139: Financial Instruments: Recognition and Measurement	1 January 2010
FRS 123: Borrowing Costs	1 January 2010
Amendment to FRS 2 Share-based Payment – Vesting Conditions and Cancellations	1 January 2010
Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127 Consolidated and Separate Financial Statements: Costs of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
IC Interpretation 9: Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10: Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11: FRS 2 – Group and Treasury Share Transactions	1 January 2010
IC Interpretation 13: Customer Loyalty Programs	1 January 2010
IC Interpretation 14: FRS 119 – The Limit on a Deferred Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010

The impact of applying FRS 7 and 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors are not required to be disclosed by virtue of the exemptions given in the respective FRSS.

FRS 7, FRS 8, FRS 123, Amendments to FRS 1 and 2, IC Interpretations 9, 10, 11, 13 and 14 are not expected to have significant impact on the financial statements of the Group except for changes in disclosure arising from the adoption of FRS 7.

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**A2. Audit Report of Preceding Financial Year Ended 31 December 2008**

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 quarter.

**A6. Loans, Advances and Financing**

	Group	
	31/12/2009	31/12/2008
	RM'000	RM'000
Gross loans, advances and financing	11,796,562	10,353,332
Interest/income-in-suspense	(2,966,966)	(2,978,111)
Allowance for bad and doubtful debts and financing:		
- General	(83,224)	(69,460)
- Specific	(627,920)	(522,626)
Net loans, advances and financing	8,118,452	6,783,135

**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 in respect of the financial year ended 31 December 2008 of 3% less 25% taxation (2.25 sen net per ordinary share) amounted to RM15.754 million was paid on 22 May 2009.

**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.

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	Financing RM'000	Property Development RM'000	Letting of Real Property RM 000	Hotel Operations RM 000	Others RM'000	Eliminations RM'000	Consolidated RM'000
<b>3 months ended 31 Dec 09</b>							
External sales	126,030	25,262	51	3,393	-	4,061	158,797
Intersegment sales	1,862	-	1,438	-	-	(3,300)	-
Total revenue	<u>127,892</u>	<u>25,262</u>	<u>1,489</u>	<u>3,393</u>	<u>-</u>	<u>761</u>	<u>158,797</u>
Segment results	(940)	(2,474)	(2,463)	(503)	28	(1,752)	(8,104)
Unallocated income (net of cost)							-
Profit from operations							<u>(8,104)</u>
<b>3 months ended 31 Dec 08</b>							
External sales	105,988	1,137	51	5,060	-	1,872	114,108
Intersegment sales	3,399	-	1,258	-	-	(4,657)	-
Total revenue	<u>109,387</u>	<u>1,137</u>	<u>1,309</u>	<u>5,060</u>	<u>-</u>	<u>(2,785)</u>	<u>114,108</u>
Segment result	8,299	8,810	(2,282)	(541)	(7)	(6,634)	7,645
Unallocated income (net of cost)							-
Profit from operations							<u>7,645</u>
<b>12 months ended 31 Dec 09</b>							
External sales	481,347	29,261	244	11,481	-	15,626	537,959
Intersegment sales	9,404	-	5,223	-	-	(14,627)	-
Total revenue	<u>490,751</u>	<u>29,261</u>	<u>5,467</u>	<u>11,481</u>	<u>-</u>	<u>999</u>	<u>537,959</u>
Segment results	87,894	2,965	(8,132)	(3,456)	(37)	1,081	80,315
Unallocated income (net of cost)							-
Profit from operations							<u>80,315</u>
<b>12 months ended 31 Dec 08</b>							
External sales	376,008	14,438	330	11,546	-	13,833	416,155
Intersegment sales	29,076	-	5,036	-	-	(34,112)	-
Total revenue	<u>405,084</u>	<u>14,438</u>	<u>5,366</u>	<u>11,546</u>	<u>-</u>	<u>(20,279)</u>	<u>416,155</u>
Segment result	63,900	1,617	(9,795)	(3,655)	(96)	2,072	54,043
Unallocated income (net of cost)							-
Profit from operations							<u>54,043</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**

	<b>As at 31/12/2009 RM'000</b>	<b>As at 31/12/2008 RM'000</b>
<b>Fully secured:</b>		
Financial guarantee to secure payments by borrowers	47,430	42,080

**(b) Material Litigations**

- (i) In two (2) civil suits brought against the Company, a contractor appointed by one of the Company's borrowers is claiming damages amounting to RM2.54 million for an alleged breach of contract. The suits were filed in the High Court at Kuala Lumpur as well as in the High Court at Kota Bharu.

The Court has fixed 16 March 2010 for further Case Management and the Trial dates have been fixed from 21 June 2010 to 25 June 2010

- (ii) Upon the winding up of an unrelated company, the creditor of the said unrelated company has named a subsidiary of the Company ("the Subsidiary") as well as three (3) other defendants as co-conspirators in a scheme to sell off a major asset of the unrelated company and thereafter allowing the said unrelated company to be wound up in order to defeat the said creditor's claim for payment from the unrelated company amounting to RM4.8 million for goods sold and delivered.

The full trial has been completed. The Subsidiary is now awaiting the decision of Court.

- (iii) A former borrower of the Company has instituted a civil suit against the Company for an alleged breach of the terms of the facility agreement i.e. failure to fully disburse the said facilities to the former borrower for their commercial development project. The Company had terminated the said facilities due to the former borrower's breach of the said agreement and had thereafter sold the loan asset to Pengurusan Danaharta Nasional Berhad.

The former borrower seeks damages amounting to RM18.011 million as at 31 July 2002, interest on a monthly rest at the rate of 2% per annum above Base Lending Rate on the sum of RM18.011million from 1 August 2002 until the date of full settlement, penalty interest of 1% per annum on the sum of RM18.011 million from 1 August 2002 until the date of full settlement with regard to the liabilities incurred by the former borrower in relation to the said commercial development project or in the alternative to the abovementioned relief, damages amounting to RM18.240 million being the

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total development expenditure incurred by the former borrower, damages amounting to RM43.311 million for loss of profit or alternatively damages to be assessed by the Court as well as costs.

On 16 November 2009, our solicitors attended Court for case management and the same has been fixed on 4 March 2010 to enable parties to finalise the bundles thereof.

- (iv) A former borrower of the Company instituted a civil suit against the Company for an alleged breach of loan agreement i.e. failure to fully disburse the said facilities pursuant to the terms of the loan agreement.

The former borrower is seeking damages amounting to RM5.0 million or such other sum as determined by the Court, interest at the rate of 8% on the RM5.0 million or such other sum as determined by the Court from the date of the Writ until the date of full realisation, as well as costs. The Company's Statement of Defence was filed on 31 July 2006.

On 8 May 2009, the Court dismissed the Company's application for the Court to hold a trial of a preliminary issue. The Court has yet to fix a date for Case Management. A Notice of Appeal to the Court of Appeal was filed on 22 May 2009. Subsequently, the Record of Appeal has been filed on 6 July 2009 and currently awaiting for a date to be fixed by the Court of Appeal.

- (v) A former borrower of the Company has instituted a civil suit against the Company for losses suffered in project they were developing due to an alleged breach by the Company i.e. terminating the unutilised balance of the bridging loan facility.

The former borrower seeks damages amounting to RM16.136 million, general and punitive damages for an amount to be determined by the Court, interest on the total damages at a rate of 8% per annum on the sum of RM16.136 million until the date of full settlement, cost and such other relief as the Court deems fit and reasonable.

The Statement of Defence was filed on 17 August 2007. On 6 May 2009, the Court allowed the Company's application to strike out the Plaintiff's claim with costs.

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

- (vi) A Counterclaim was filed by a borrower seeking damages against MBSB's subsidiaries in the sum of RM445 million and RM8.540 million for alleged losses suffered by the borrower in relation to development projects in

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Melaka ("Melaka Project") and Penang ("Penang Project") respectively, which to date remains uncompleted.

Both the suits were in response to MBSB's civil suits against the borrower in relation to its failure to repay MBSB's term loans of RM178 million and RM61 million respectively.

For the Melaka Project, the case management is pending.

For the Penang Project, the Company's Solicitors have filed the Notice of Appeal to the Court on 15 April 2009 against the Judge in Chambers decision of our application for Summary Judgement on 13 April 2009, which was dismissed with costs. The Court has fixed 18 November 2009 for hearing on the appeal.

On 20 August 2009, our solicitors attended Court for hearing of the Company's application to strike off the Counterclaim. However, the date to hear the strike off of the Counterclaim will be fixed after the appeal on the Penang Project has been heard.

- (vii) A former borrower of the Company has instituted a civil suit against the Company for an alleged breach of the terms of the facility agreement in respect of failure to fully disburse the said facilities to the former borrower for their commercial development project.

Our solicitors have entered Memorandum of Appearance on behalf of MBSB within the stipulated time and have filed the statement of defence on 9 December 2009.

Subsequently, our solicitors have filed an application to strike out the Plaintiff's suit and pending extraction of same from court.

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.

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**A14. Acquisition/Disposal of Property, Plant and Equipment**

	12 months ended 31/12/2009 RM'000
Acquisition	
Renovation	3,982
Furniture & Equipment	1,209
Data Processing Equipment	491
Motor Vehicle	212
	5,894
Disposal	
Buildings	2,088
Freehold land	606
Motor vehicles	142
Furniture & Equipment	4
	752

**A15. Significant Related Party Transactions**

	4th Quarter		Cumulative	
	Current Quarter 31/12/2009 RM'000	Corresponding Quarter 31/12/2008 RM'000	Current Year To Date 31/12/2009 RM'000	Preceding Year To Date 31/12/2008 RM'000
Transactions with Employees				
Provident Fund Board, the ultimate holding body				
Interest on debenture loans	648	1,297	3,400	5,914
Rental paid	75	75	299	309
Agency fees received	(1)	2	(4)	(9)
Transaction of a subsidiary with with an associated company of the ultimate holding body in respect of disposal of property	-	-	-	26,000
	-	-	-	26,000

**A16. Capital Commitments**

As at 31 December 2009, 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	12,165
	12,165

**A17. Impairment Loss**

There was no significant impairment loss for the current quarter.

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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 incurred a loss before taxation of RM8.104 million for the current quarter as compared to the preceding quarter profit before taxation of RM66.195 million. This was mainly due to the recovery of a major account in the preceding quarter and higher loan loss allowances in this quarter.

**B2. Review of Performance**

The Group profit before taxation for the financial year ended 31 December 2009 of RM80.315 million was 49% higher than the previous year of RM54.043 million. The better performance was mainly due to the increase of net interest and financing income especially the Islamic Banking operations, higher other operating fee-based income and recovery of a major account. These were partly set off by higher loan loss allowances, higher operating expenses and the negative impact on net interest margins arising from the reduction in the overnight policy rate.

**B3. Prospects for 2010**

The operating environment for financial institutions is expected to improve in 2010 with the gradual growth in the Malaysian economy. The Group will continue to focus on business growth, managing assets quality, recoveries of loans and improving its efficiency whilst enhancing its risk management capabilities.

Barring unforeseen circumstances, the Group is expected to remain profitable in 2010.

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

There was no profit forecast or profit guarantee issued for the financial year ending 31 December 2009.

**B5. Taxation**

	4th Quarter		Cumulative	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008
	RM'000	RM'000	RM'000	RM'000
Income tax:				
Current income tax	512	84	6,091	1,012
Tax refund	-	-	(19)	-
Underprovision in prior years	-	927	-	4,718
	<u>512</u>	<u>1,011</u>	<u>6,072</u>	<u>5,730</u>
Deferred tax:				
Relating origination and reversal of temporary differences	556	15,200	16,501	15,657
Relating to changes in tax rates	-	1,147	-	647
Overprovision in prior years	-	(843)	-	(843)
	<u>556</u>	<u>15,504</u>	<u>16,501</u>	<u>15,461</u>
	<u>1,068</u>	<u>16,515</u>	<u>22,573</u>	<u>21,191</u>



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**B6. Profit/(Loss) on Sale of Unquoted Investments and/or Properties**

There was no sale of unquoted investment. The gain on disposal of inventory and investment properties for the current quarter amounted to RM2.0 million and RM1.686 million respectively.

**B7. Purchase and Sale of Quoted Securities**

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

**B8. Status of Corporate Proposals**

No corporate proposals were announced.

**B9. Borrowings and Debts**

Borrowings and debts securities of the Group as at 31 December 2009 are as follows:

**RM'000**

Secured short term borrowings	50,004
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There were no unsecured borrowings as at 31 December 2009. All borrowings and debts securities are denominated in Ringgit Malaysia.

**B10. Off Balance Sheet Financial Instruments**

The Company and the Group do not have any financial instruments.

**B11. Material Litigation**

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

**B12. Dividends Proposed**

The Board of Directors has recommended a first and final dividend of 4.0% less 25% income tax (3 sen net per ordinary share) in respect of the financial year ended 31 December 2009, for the approval of the Company's shareholders at the forthcoming Annual General Meeting. Based on the issued and paid up as at 31 December 2009 of 700,171,527 ordinary shares, the net dividend payable would amount to RM21,005,146. The financial statements for the current year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity in the financial year ending 31 December 2010. The entitlement and payment dates in respect of this proposed dividend will be announced at a later date.

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**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.

	4th Quarter		Cumulative	
	Current Quarter 31/12/2009 RM'000	Preceding Quarter 30/09/2009 RM'000	Current Year to Date 31/12/2009 RM'000	Preceding Year to Date 31/12/2008 RM'000
Net profit attributable to shareholders	(9,711)	52,681	57,203	32,575
Weighted average number of shares in issue ('000)	700,172	700,172	700,172	485,374
Basic earnings per share (sen)	<u>(1.39)</u>	<u>7.52</u>	<u>8.17</u>	<u>6.71</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 22 February 2010.

BY ORDER OF THE BOARD

Koh Ai Hoon  
Huzaifah Zainuddin  
Joint Company Secretaries  
Kuala Lumpur  
22 February 2010