

MALAYSIA BUILDING SOCIETY BERHAD (Company No. 9417-K)
EXPLANATORY NOTES FOR FINANCIAL QUARTER ENDED 30 SEPTEMBER 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
FRS, Amendments to FRS and Interpretations	
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 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 quarter.

A6. Loans, Advances and Financing

	Group	
	30/09/2009	31/12/2008
	RM'000	RM'000
Gross loans, advances and financing	11,167,543	10,353,332
Interest/income-in-suspense	(2,856,112)	(2,978,111)
Allowance for bad and doubtful debts and financing:		
- General	(78,224)	(69,460)
- Specific	(579,339)	(522,626)
Net loans, advances and financing	7,653,868	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
3 months ended 30 Sep 09							
External sales	153,727	1,969	57	2,594	-	4,025	162,372
Intersegment sales	2,470	-	1,265	-	-	(3,735)	-
Total revenue	156,197	1,969	1,322	2,594	-	290	162,372
Segment results	67,520	15,784	(2,832)	(1,067)	(22)	(13,188)	66,195
Unallocated income (net of cost)							-
Profit from operations							66,195
3 months ended 30 Sep 08							
External sales	79,921	7,419	93	1,978	-	4,123	93,534
Intersegment sales	19,275	-	1,261	-	-	(20,536)	-
Total revenue	99,196	7,419	1,354	1,978	-	(16,413)	93,534
Segment result	21,928	19,204	(2,750)	(1,275)	(42)	(24,426)	12,639
Unallocated income (net of cost)							-
Profit from operations							12,639
9 months ended 30 Sep 09							
External sales	355,317	3,999	193	8,088	-	11,565	379,162
Intersegment sales	7,542	-	3,785	-	-	(11,327)	-
Total revenue	362,859	3,999	3,978	8,088	-	238	379,162
Segment results	88,834	5,439	(5,669)	(2,953)	(65)	2,833	88,419
Unallocated income (net of cost)							-
Profit from operations							88,419
9 months ended 30 Sep 08							
External sales	270,021	13,301	279	6,486	-	11,961	302,048
Intersegment sales	25,677	-	3,778	-	-	(29,455)	-
Total revenue	295,698	13,301	4,057	6,486	-	(17,494)	302,048
Segment result	55,601	7,193	(7,513)	(3,114)	(89)	(5,679)	46,399
Unallocated income (net of cost)							-
Profit from operations							46,399

A10. Valuation of Property, Plant and Equipment

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

A11. Subsequent Events

As at the date of this report, there were no material events occurring subsequent to the end of the current quarter that have not been reflected in the financial statements for the current quarter.

A12. Changes in the Composition of the Group

There were no major changes in the composition of the Group for the current quarter.

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

	As at 30/09/2009 RM'000	As at 31/12/2008 RM'000
Fully secured:		
Financial guarantee to secure payments by borrowers	42,080	42,080
Partly secured:		
Obligation to secure performance by third parties	285,911	285,911
	<u>327,991</u>	<u>327,991</u>

(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

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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 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.

The Court has fixed 16 November 2009 for final Case Management.

- (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.

In the interim, the Company filed an Application to strike out the suit but the application was dismissed on 22 April 2008. The Company's appeal against the dismissal was also disallowed. The Notice of Appeal to the Court of Appeal was filed on 22 May 2009. Upon receipt of the Grounds of Judgment, the Company's Solicitors will proceed to prepare the Record of Appeal. The Company has yet to receive judgement.

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.

- (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.

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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 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.

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

	9 months ended 30/09/2009
	RM'000
Acquisition	
Renovation	2,271
Furniture & Equipment	365
Data Processing Equipment	580
	3,216
Disposal	
Furniture & Equipment	4

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A15. Significant Related Party Transactions

	3rd Quarter		Cumulative	
	Current Quarter 30/09/2009 RM'000	Preceding Quarter 30/06/2009 RM'000	Current Year To Date 30/09/2009 RM'000	Preceding Year To Date 30/09/2008 RM'000
Transactions with Employees Provident Fund Board, the ultimate holding body				
Interest on debenture loans	789	917	2,752	4,617
Rental paid	75	74	224	234
Agency fees received	(1)	(1)	(3)	(6)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

A16. Capital Commitments

As at 30 September 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	<u>10,811</u>

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 profit before taxation of RM66.195 million for the current quarter was higher than the preceding quarter of RM12.435 million. This was due to higher net interest income mainly from recovery of a major account, lower allowance for losses on loans and financing, higher income from Islamic banking operations and higher other operating income. These were partly set off by higher other operating expenses in the current quarter compared to the previous quarter.

B2. Review of Performance

The Group profit before taxation for the 9 months period ended 30 September 2009 of RM88.419 million was higher than the previous year corresponding period profit before tax of RM46.399 million. This was due to higher net interest income mainly from recovery of a major account, higher net income from Islamic banking operations and higher other operating income. These were partly set off by higher allowance for losses on loans and financing and higher other operating expenses.

B3. Prospects for 2009

With the gradual recovery of the global economy and barring unforeseen circumstances, the Group expects to remain profitable in the last quarter of 2009.

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

	3rd Quarter		Cumulative	
	Current Quarter 30/09/2009 RM'000	Preceding Quarter 30/06/2009 RM'000	Current Year To Date 30/09/2009 RM'000	Preceding Year To Date 30/09/2008 RM'000
Income tax:				
Current income tax	5,532	24	5,579	910
Tax refund	-	-	(19)	-
Underprovision in prior years	-	-	-	3,809
	5,532	24	5,560	4,719
Deferred tax:				
Relating to origination and reversal of temporary differences	7,982	3,981	15,945	(43)
	13,514	4,005	21,505	4,676

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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 RM1.644 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 30 September 2009 are as follows:

	RM'000
Short term borrowings	
Secured	50,015
Unsecured	315,139
	<u>365,154</u>
Long term borrowings	
Secured	12,493
Unsecured	-
	<u>12,493</u>
Total	<u>377,647</u>

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 Declared

No dividends have been declared for the current quarter.

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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 period.

	3rd Quarter		Cumulative	
	Current Quarter 30/09/2009 RM'000	Preceding Quarter 30/06/2009 RM'000	Current Year to Date 30/09/2009 RM'000	Preceding Year to Date 30/09/2008 RM'000
Net profit attributable to shareholders	52,681	8,430	66,914	41,723
Number of shares in issue ('000)	700,172	700,172	700,172	397,726
Basic earnings per share (sen)	7.52	1.20	9.56	10.49

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 5 November 2009.

BY ORDER OF THE BOARD

Koh Ai Hoon
Huzaifah Zainuddin
Joint Company Secretaries
Kuala Lumpur
5 November 2009