FINANCIAL STATEMENTS

Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements of the Group and the Company for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The Group's subsidiary companies are Cagamas Berhad ("Cagamas"), Cagamas Global P.L.C. ("CGP"), Cagamas Global Sukuk Berhad ("CGS"), Cagamas MBS Berhad ("CMBS"), Cagamas SRP Berhad ("CSRP"), Cagamas MGP Berhad ("CMGP") and Cagamas SME Berhad ("CSME").

The principal activities of Cagamas consist of the purchases of mortgage loans, personal loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issuance of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk. Cagamas subsidiary companies are CGP and CGS;

- CGP is a conventional fund raising vehicle incorporated in Labuan. Its main principal activities are to undertake the issuance of bonds and notes in foreign currency.
- CGS is an Islamic fund raising vehicle. Its main principal activities are to undertake the issuance of Sukuk in foreign currency.

The principal activities of CMBS consist of the purchases of mortgage assets and Islamic mortgage assets from Lembaga Pembiayaan Perumahan Sektor Awam ("LPPSA") and issuance of residential mortgage-backed securities ("RMBS") and Islamic residential mortgage-backed securities ("IRMBS") to finance the purchases.

The principal activities of CSRP are the provision of mortgage guarantee and mortgage indemnity business and other form of credit protection in relation to Skim Rumah Pertamaku (My First Home Scheme) ("SRP") and Skim Perumahan Belia (Youth Housing Scheme) ("SPB") both of which were initiated by the Government of Malaysia ("GOM").

The principal activities of CMGP were the provision of mortgage guarantee and mortgage indemnity business and other form of credit protection. CMGP has remained dormant since 1 January 2014.

The principal activities of CSME were the purchase of Small and Medium Enterprise ("SME") loans and the undertaking of structured product transactions via cash or synthetic securitisations or combination of both and issuance of bonds to finance the purchase. CSME has remained dormant since 10 October 2012.

There were no other significant changes in the nature of these activities during the financial year.

SUBSIDIARIES

Details of subsidiaries are set out in Note 18 to the financial statements.

FINANCIAL RESULTS

	Group	Company
	RM'000	**RM'000**
Profit for the financial year	414,296	30,120

DIVIDEND

The dividends paid by the Group and Company since 31 December 2016 were as follows:

	Group	Company
	RM'000	**RM'000**
In respect of the financial year ended 31 December 2017,		
On ordinary shares:		
– a first interim dividend of 15 sen per share on 150,000,000 on shares, paid on 8 May 2017	22,500	22,500
– a second interim dividend of 5 sen per share on 150,000,000 on shares, paid on 31 October 2017	7,500	7,500
	30,000	30,000
On redeemable preference shares:		
– a dividend paid in specie on 15 December 2017	126,430	–
– a dividend paid in cash on 15 December 2017	139,472	–
	265,902	–

The Directors now recommend the payment of a first interim dividend of 15 sen per share on 150,000,000 ordinary shares amounting to RM22,500,000 for the financial year ended 31 December 2018, which is subject to approval of the members at the forthcoming Annual General Meeting of the Company.

The dividends on redeemable preference shares ("RPS") was approved by the Board of Directors of its subsidiary company, CMBS, on 6 December 2017 and paid in the current financial year. The Board of Directors of CMBS, do not recommend the payment of any further dividend on RPS or ordinary shares for the financial year ended 31 December 2017.

SHARE CAPITAL

On 15 September 2017, the Board of Directors of a subsidiary company, CMBS, had approved the issuance of 1 RPS of RM1 to facilitate the distribution discretionary bonus fee to LPPSA upon full settlement of RMBS for pool 2004-1.

There are no other changes in the issued ordinary share of the Company during the financial year.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

RATING PROFILE OF THE BONDS AND SUKUK

RAM Rating Services Berhad ("RAM") has assigned the rating of $_{g}A_{2}$/Stable/$_{g}$P1, $_{sea}$AAA/Stable/$_{sea}$P1 and AAA/Stable/P1 to Global, ASEAN and national-scale bonds and Sukuk issued by a subsidiary of the Group, Cagamas, respectively. In addition, Malaysian Rating Corporation Berhad (MARC) has also assigned Cagamas's bonds and Sukuk issues ratings at AAA/MARC-1 and AAA$_{IS}$/MARC-1$_{IS}$, respectively. Moody's Investors Service (Moody's) has assigned local and foreign currency issuer ratings of A3 that is in line with Malaysian sovereign ratings.

In addition, RAM and Moody's have maintained the ratings of $_{g}A_{2}$(s) and A3 respectively to the USD2.5 billion Multicurrency Medium Term Note ("EMTN") Programme and USD2.5 billion Multicurrency Sukuk Programme issued by its subsidiaries.

RELATED PARTY TRANSACTIONS

The Company's related party transactions are disclosed in Note 37 to the financial statements.

During the financial year ended 31 December 2017, its subsidiary company, Cagamas, entered into a shared service arrangement with another of its subsidiary company, CSRP. Under this arrangement, Cagamas sets out the scope of services performed for CSRP in the normal course of business. The details and nature of the transaction are disclosed in Note 37 to the financial statements.

DIRECTORS

The Directors in office during the financial year and during the period from the end of the financial year to date of the report are:

Encik Nik Mohd Hasyudeen bin Yusoff (appointed as Chairman on 1.7.2017)
Tan Sri Dato' Sri Tay Ah Lek
Datuk George Ratilal
Datuk Abdul Farid bin Alias
Datuk Azizan bin Haji Abd Rahman
Dato' Lee Kok Kwan
Puan Wan Hanisah binti Wan Ibrahim
Datuk Shaik Abdul Rasheed bin Abdul Ghaffour
Dato' Ooi Sang Kuang (resigned as Chairman and Director on 1.7.2017)

The names of the Directors of subsidiaries are set out in the respective subsidiary's statutory financial statements and the said information is deemed incorporated herein by such reference and made a part hereof.

DIRECTORS (CONTINUED)

In accordance with Articles 19.13 and 19.14 of the Company's Articles of Association, Datuk George Ratilal, Datuk Azizan bin Haji Abd Rahman and Dato' Lee Kok Kwan retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS AND REMUNERATION

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit and remuneration (other than Directors' remuneration as disclosed in Note 33 to the financial statements) by reason of a contract made by the Group or the Company or by a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial year were the Group and the Company are a party to any arrangements whose object or objects were to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Group and the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, the Directors in office at the end of the financial year did not hold any interest in shares or options over shares in the Company or its subsidiaries during the financial year.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements of the Group and the Company were prepared, the Directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there is no bad debts to be written off and that adequate allowance had been made for doubtful debts; and

(b) to ensure that any current assets, other than debts, which were unlikely to realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Group and the Company had been written down to an amount which the current assets might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(a) which would render the amounts to be written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and the Company inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Group and the Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

At the date of this report, there does not exist:

(a) any charge on the assets of the Group and the Company which has arisen since the end of the financial year which secures the liability of any other person; or

(b) any contingent liability of the Group and the Company which has arisen since the end of the financial year.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group and the Company to meet its obligations when they fall due.

At this date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading or inappropriate.

In the opinion of the Directors:

(a) the results of the operations of the Group and the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and the Company for the financial year in which this report is made.

BUSINESS REVIEW FOR THE FINANCIAL YEAR 2017

Cagamas, the key operating subsidiary, recorded RM14.0 billion of purchases of loans and financing in 2017 under PWR scheme (2016: RM5.7 billion) and RM100.0 million purchase of loans and financing under PWOR scheme (2016: Nil). Cagamas' net outstanding loans and financing rose by 16% to RM37.6 billion (2016: RM32.5 billion). As at end of 2017, residential mortgage dominated Cagamas' portfolio at 98.8%, followed by hire purchase loans and financing at 0.8% and personal loans and financing at 0.4%. Cagamas's Islamic asset portfolio against conventional assets contracted to a ratio of 32:68, while PWR and PWOR loans and financing portfolios were at 65% and 35% respectively. The gross impaired loans and financing under the PWOR scheme remained low at 0.72%, while net impaired loans and financing was at 0.23%.

As at end of 2017, CSRP's guarantee exposure to the SRP and SPB schemes was RM201.4 million compared with RM95.5 million in 2016. The value and number of new loans and financing approved with guarantee cover for SRP and SPB have increased, mainly due to greater public awareness of the schemes through the participating financial institutions. Since the launch of SRP and SPB in year 2011 and 2015 respectively, CSRP has provided guarantee for housing loans totalling RM2.1 billion enabling 9,840 individuals/households to own their first house.

As at the financial year end, CMBS contributed a pre-tax profit of RM214.4 million, compared with RM230.9 million in 2016. 2017 saw the highest redemption totalling RM1.7 billion, leaving a remaining of RM2.5 billion worth of RMBS/IRMBS out of the original total issuance of RM10.2 billion. The remaining RMBS/IRMBS are expected to mature in stages and completely by August 2027.

Directors' Report (Continued)

SIGNIFICANT EVENTS DURING THE YEAR

The significant events during the financial year are disclosed in Note 49 of the financial statements.

SUBSIDIARIES

Details of subsidiaries are set in Note 18 to the financial statements.

AUDITORS' REMUNERATION

Details of the auditors' remuneration are set out in Note 34 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146) a conventional partnership was converted to a limited liability partnership.

This report was approved by the Board of Directors on 16 March 2018.

Signed on behalf of the Board of Directors:

NIK MOHD HASYUDEEN BIN YUSOFF
CHAIRMAN

TAN SRI DATO' SRI TAY AH LEK
DIRECTOR

Statements of Financial Position

as at 31 December 2017

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
ASSETS					
Cash and short-term funds	5	**793,384**	774,249	**435**	569
Deposits and placements with financial institutions	6	**241,887**	1,160,260	**1,701**	1,446
Derivative financial instruments	7	**466,339**	887,826	–	–
AFS investment securities	8	**3,697,557**	2,940,716	–	–
Amount due from counterparties	9	**19,870,378**	14,296,165	–	–
Islamic financing assets	10	**5,544,378**	5,307,689	–	–
Mortgage assets					
– Conventional	11	**7,678,054**	8,494,015	–	–
– Islamic	12	**8,465,367**	9,058,668	–	–
Hire purchase assets					
– Islamic	13	**953**	1,924	–	–
Other assets	14	**18,556**	19,946	–	–
Property and equipment	15	**4,437**	2,892	–	–
Intangible assets	16	**16,354**	14,032	–	–
Deferred taxation	17	**14,501**	13,965	–	–
Tax recoverable		**25**	26	**25**	26
Investment in subsidiaries	18	–	–	**4,181,628**	4,181,628
Investment in structured entity	19	–*	–*	–*	–*
TOTAL ASSETS		**46,812,170**	42,972,373	**4,183,789**	4,183,669
LIABILITIES					
Unsecured bearer bonds and notes	20	**25,764,940**	20,946,586	**–**	–
Sukuk	21	**11,597,878**	11,214,913	**–**	–
Derivative financial instruments	7	**216,871**	33,825	**–**	–
RMBS	22	**1,270,318**	2,143,775	**–**	–
IRMBS	23	**1,261,353**	2,075,803	**–**	–
Deferred guarantee fee income		**5,080**	3,850	**–**	–
Deferred Wakalah fee income		**11,848**	7,648	**–**	–
Deferred taxation	17	**539,287**	512,353	**3**	3
Provision for taxation		**18,610**	21,937	**–**	–
Other liabilities	24	**61,247**	62,089	**–**	–
TOTAL LIABILITIES		**40,747,432**	37,022,779	**3**	3

* denotes RM2

The accompanying notes form an integral part of these financial statements.

Statements of Financial Position (Continued)

as at 31 December 2017

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Share capital	25	**150,000**	150,000	**150,000**	150,000
Reserves	26	**5,914,738**	5,799,594	**4,033,786**	4,033,666
SHAREHOLDERS' FUNDS		**6,064,738**	5,949,594	**4,183,786**	4,183,666
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**46,812,170**	42,972,373	**4,183,789**	4,183,669
NET TANGIBLE ASSETS PER SHARE (RM)	27	**40.32**	39.57	**27.89**	27.89

The accompanying notes form an integral part of these financial statements.

Income Statements

for the financial year ended 31 December 2017

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest income	28	**1,434,045**	1,300,503	**159**	158
Interest expense	29	**(996,290)**	(892,690)	**–**	–
Income from Islamic operations	48	**233,211**	244,976	**–**	–
Non-interest (expense)/income	30	**(65,872)**	(37,489)	**30,000**	30,000
		605,094	615,300	**30,159**	30,158
Administration and general expenses		**(29,616)**	(25,907)	**(1)**	–
Personnel costs	31	**(27,302)**	(25,488)	**–**	–
OPERATING PROFIT		**548,176**	563,905	**30,158**	30,158
Write-back of impairment losses	32	**72**	10,340	**–**	–
PROFIT BEFORE TAXATION AND ZAKAT	34	**548,248**	574,245	**30,158**	30,158
Zakat		**(973)**	(1,037)	**–**	–
Taxation	35	**(132,979)**	(133,829)	**(38)**	(38)
PROFIT FOR THE FINANCIAL YEAR		**414,296***	439,379*	**30,120**	30,120
EARNINGS PER SHARE (SEN)	27	**276.20**	292.92	**20.08**	20.08
DIVIDEND PER SHARE (SEN)	36	**20.00**	20.00	**20.00**	20.00

* Profit for the financial year of the Group includes profit from CMBS of RM162,913,000 (2016: RM175,507,000) that may be subject to a discretionary bonus fee to LPPSA upon full settlement of each RMBS/IRMBS pool.

The accompanying notes form an integral part of these financial statements.

Statements of Comprehensive Income

for the financial year ended 31 December 2017

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Profit for the financial year	**414,296**	439,379	**30,120**	30,120
Other comprehensive loss:				
Items that may be subsequently reclassified to profit or loss				
AFS investment securities				
– Net gain on fair value changes before taxation	**16,773**	5,202	**–**	–
– Deferred taxation	**(4,030)**	(1,259)	**–**	–
Cash flow hedge				
– Net loss on cash flow hedge before taxation	**(20,753)**	(37,225)	**–**	–
– Deferred taxation	**4,760**	8,922	**–**	–
Other comprehensive loss for the financial year, net of taxation	**(3,250)**	(24,360)	**–**	–
Total comprehensive income for the financial year	**411,046**	415,019	**30,120**	30,120

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

for the financial year ended 31 December 2017

		Issued ordinary shares of RM1 each	Non-distributable							
Group	**Note**	**Share capital RM'000**	**Share premium relief reserve RM'000**	**Reverse acquisition relief reserve RM'000**	**AFS reserves RM'000**	**Cash flow hedge reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Other reserves* RM'000**	**Total equity RM'000**
Balance as at 1 January 2017		150,000	3,831,628	(3,831,628)	(12,810)	(12,365)	173,564	3,144,420	2,506,785	5,949,594
Profit for the financial year		-	-	-	-	-	-	251,383	162,913	414,296
Other comprehensive income/(loss)		-	-	-	12,743	(15,993)	-	-	-	(3,250)
Total comprehensive income/ (loss) for the financial year		-	-	-	12,743	(15,993)	-	251,383	162,913	411,046
Transfer to retained profits		-	-	-	-	-	(12,532)	12,532	-	-
Discretionary dividend on RPS paid during the year	36	-	-	-	-	-	-	-	(265,902)	(265,902)
First interim dividends on ordinary shares in respect of the financial year ended 31 December 2017	36	-	-	-	-	-	-	(22,500)	-	(22,500)
Second interim dividends on ordinary shares in respect of the financial year ended 31 December 2017	36	-	-	-	-	-	-	(7,500)	-	(7,500)
Balance as at 31 December 2017	25 & 26	150,000	3,831,628	(3,831,628)	(67)	(28,358)	161,032	3,378,335	2,403,796	6,064,738

* Other reserves relates to retained profits of CMBS that may be subject to a discretionary bonus fee to LPPSA upon full settlement of each RMBS/IRMBS pool via payment of dividend on RPS held by SRP in trust.

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity (Continued)

for the financial year ended 31 December 2017

Group	Note	Issued ordinary shares of RM1 each	Non-distributable							
		Share capital RM'000	Share premium relief reserve RM'000	Reverse acquisition relief reserve RM'000	AFS reserves RM'000	Cash flow hedge reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000	Other reserves* RM'000	Total equity RM'000
Balance as at 1 January 2016		150,000	3,831,628	(3,831,628)	(16,753)	15,938	189,647	2,894,465	2,331,278	5,564,575
Profit for the financial year		–	–	–	–	–	–	263,872	175,507	439,379
Other comprehensive income/(loss)		–	–	–	3,943	(28,303)	-	-	-	(24,360)
Total comprehensive income/(loss) for the financial year		–	–	–	3,943	(28,303)	–	263,872	175,507	415,019
Transfer to retained profits		–	–	–	–	–	(16,083)	16,083	–	–
First interim dividends on ordinary shares in respect of the financial year ended 31 December 2016	36	–	–	–	–	–	–	(22,500)	–	(22,500)
Second interim dividends on ordinary shares in respect of the financial year ended 31 December 2016	36	–	–	–	–	–	–	(7,500)	–	(7,500)
Balance as at 31 December 2016	25 & 26	150,000	3,831,628	(3,831,628)	(12,810)	(12,365)	173,564	3,144,420	2,506,785	5,949,594

* Other reserves relates to retained profits of CMBS that may be subject to a discretionary bonus fee to LPPSA upon full settlement of each RMBS/IRMBS pool via payment of dividend on RPS held by SRP in trust.

The accompanying notes form an integral part of these financial statements.

Company	Note	Issued ordinary shares of RM1 each	Non-distributable		
		Share capital RM'000	Share premium relief reserve RM'000	Retained profits RM'000	Total equity RM'000
Balance as at 1 January 2017		150,000	3,831,628	202,038	4,183,666
Profit for the financial year		–	–	30,120	30,120
Total comprehensive income for the financial year		–	–	30,120	30,120
First interim dividends on ordinary shares in respect of financial year ended 31 December 2017	36	–	–	(22,500)	(22,500)
Second interim dividends on ordinary shares in respect of financial year ended 31 December 2017	36	–	–	(7,500)	(7,500)
Balance as at 31 December 2017	25 & 26	**150,000**	**3,831,628**	**202,158**	**4,183,786**
Balance as at 1 January 2016		150,000	3,831,628	201,918	4,183,546
Profit for the financial year		–	–	30,120	30,120
Total comprehensive income for the financial year		–	–	30,120	30,120
First interim dividends on ordinary shares in respect of financial year ended 31 December 2016	36	–	–	(22,500)	(22,500)
Second interim dividends on ordinary shares in respect of financial year ended 31 December 2016	36	–	–	(7,500)	(7,500)
Balance as at 31 December 2016	25 & 26	150,000	3,831,628	202,038	4,183,666

The accompanying notes form an integral part of these financial statements.

Statements of Cash Flows

for the financial year ended 31 December 2017

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
OPERATING ACTIVITIES				
Profit for the financial year	**414,296**	439,379	**30,120**	30,120
Adjustments for investment items and items not involving the movement of cash and cash equivalents:				
Amortisation of premium less accretion of discount on AFS investment securities	**(9,286)**	(11,367)	**–**	–
Accretion of discount on:				
Mortgage assets				
– Conventional	**(200,264)**	(210,565)	**–**	–
– Islamic	**(154,899)**	(166,170)	**–**	–
Hire purchase assets				
– Islamic	**(16)**	(78)	**–**	–
Interest income	**(1,184,518)**	(1,052,471)	**–**	–
Income from Islamic operations	**(627,377)**	(685,301)	**–**	–
Interest expense	**831,351**	753,759	**–**	–
Profit attributable to Sukuk holders	**579,206**	612,848	**–**	–
Guarantee fee income	**(4,277)**	–	**–**	–
Wakalah fee income	**–**	(2,274)	**–**	–
Depreciation of property and equipment	**1,057**	1,132	**–**	–
Amortisation of intangible assets	**1,416**	1,407	**–**	–
(Gain)/loss disposal of:				
– Property and equipment	**–**	10	**–**	–
– AFS investment securities	**(2,756)**	(3,863)	**–**	–
Write-back for impairment losses on mortgage assets and hire purchase assets and Islamic mortgage assets and Islamic hire purchase assets	**(72)**	(10,340)	**–**	–
Reclassification adjustment on fair value gains on CCS, transfer from equity	**(236,599)**	(247,650)	**–**	–
Unrealised loss on foreign exchange	**236,856**	246,478	**–**	–
Taxation	**132,979**	133,829	**38**	38
Zakat	**973**	1,037	**–**	–
Operating (loss)/profit before working capital changes	**(221,930)**	(200,200)	**30,158**	30,158

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Increase in amount due from counterparties	**(5,531,394)**	(3,283,417)	**–**	–
(Increase)/decrease in Islamic financing assets	**(230,874)**	275,436	**–**	–
Decrease in mortgage assets				
– Conventional	**867,250**	1,024,268	**–**	–
– Islamic	**727,411**	722,206	**–**	–
Decrease in mortgage assets repurchase				
– Conventional	**1,967**	–	**–**	–
Decrease in hire purchase assets				
– Conventional	**1,078**	3	**–**	–
– Islamic	**–**	2,300	**–**	–
Decrease/(increase) in other assets	**36**	142	**–**	(3)
Increase in unsecured bearer bonds and notes	**4,779,759**	2,922,718	**–**	–
Increase/(decrease) in Sukuk	**381,422**	(727,993)	**–**	–
Increase in deferred financing fees	**(4,213)**	(1,481)	**–**	–
Decrease in				
– RMBS	**(870,000)**	–	**–**	–
– IRMBS	**(810,000)**	–	**–**	–
Increase/(decrease) in derivatives	**648,664**	(190,029)	**–**	–
Decrease in amount due to related company	**(58)**	(120)	**–**	–
Increase/(decrease) in other liabilities	**476**	(5,604)	**–**	–
Cash (utilised in)/generated from operations	**(260,406)**	538,229	**30,158**	30,155
Profit received from Islamic assets	**650,774**	727,134	**–**	–
Fee income received	**9,706**	5,958	**–**	–
Interest received	**1,296,330**	1,157,038	**–**	–
Interest paid	**(961,161)**	(936,836)	**–**	–
Interest paid to RMBS holders	**(103,263)**	–	**–**	–
Profit paid to IRMBS holders	**(79,958)**	–	**–**	–
Profit paid for derivatives	**(19,007)**	(40,177)	**–**	–
Profit attributable to Sukuk holders	**(502,630)**	(612,864)	**–**	–
Payment of:				
– Zakat	**(1,037)**	(2,777)	**–**	–
– Taxation	**(109,176)**	(109,917)	**(37)**	(68)
Net cash (utilised in)/generated from operating activities	**(79,828)**	725,788	**30,121**	30,087

Statements of Cash Flows (Continued)
for the financial year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
INVESTING ACTIVITIES					
Purchase of AFS investment securities		**(4,095,926)**	(2,714,848)	**–**	–
Sale of AFS investment securities		**3,374,047**	3,121,811	**–**	–
Purchase of					
– Property and equipment		**(2,602)**	(1,068)	**–**	–
– Intangible assets		**(3,738)**	(7,711)	**–**	–
Income received from AFS investment securities		**72,457**	69,224	**–**	–
Income received from Sukuk		**5,827**	2,046	**–**	–
Net cash (utilised in)/generated from investing activities		**(649,935)**	469,454	**–**	–
FINANCING ACTIVITIES					
Dividends paid to shareholders		**(30,000)**	(30,000)	**(30,000)**	(30,000)
Dividends paid to RPS holder		**(139,472)**	–	–	–
Net cash utilised in financing activities		**(169,472)**	(30,000)	**(30,000)**	(30,000)
Net (decrease)/increase in cash and cash equivalents		**(899,235)**	1,165,242	**121**	87
Cash and cash equivalents as at 1 January		**1,934,508**	769,267	**2,015**	1,928
Cash and cash equivalents as at 31 December		**1,035,271**	1,934,509	**2,136**	2,015
Analysis of cash and cash equivalents as at 31 December:					
Cash and short-term funds	5	**793,384**	774,249	**435**	569
Deposits and placements with financial institutions	6	**241,887**	1,160,260	**1,701**	1,446
		1,035,271	1,934,509	**2,136**	2,015

The accompanying notes form an integral part of these financial statements.

1 GENERAL INFORMATION

The principal activity of the Company is investment holding.

The Group's subsidiary companies are Cagamas Berhad ("Cagamas"), Cagamas Global P.L.C. ("CGP"), Cagamas Global Sukuk Berhad ("CGS"), Cagamas MBS Berhad ("CMBS"), Cagamas SRP Berhad ("CSRP"), Cagamas MGP Berhad ("CMGP") and Cagamas SME Berhad ("CSME").

The principal activities of Cagamas consist of the purchases of mortgage loans, personal loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issuance of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk. Cagamas subsidiary companies are CGP and CGS;

- CGP is a conventional fund raising vehicle incorporated in Labuan. Its main principal activities are to undertake the issuance of bonds and notes in foreign currency.
- CGS is an Islamic fund raising vehicle. Its main principal activities are to undertake the issuance of Sukuk in foreign currency.

The principal activities of CMBS consist of the purchases of mortgage assets and Islamic mortgage assets from Lembaga Pembiayaan Perumahan Sektor Awam ("LPPSA") and issuance of residential mortgage-backed securities ("RMBS") and Islamic residential mortgage-backed securities ("IRMBS") to finance the purchases.

The principal activities of CSRP are the provision of mortgage guarantee and mortgage indemnity business and other form of credit protection in relation to Skim Rumah Pertamaku (My First Home Scheme) ("SRP") and Skim Perumahan Belia (Youth Housing Scheme) ("SPB") both of which were initiated by the Government of Malaysia ("GOM").

The principal activities of CMGP were the provision of mortgage guarantee and mortgage indemnity business and other form of credit protection. CMGP has remained dormant since 1 January 2014.

The principal activities of CSME were the purchase of Small and Medium Enterprise ("SME") loans and the undertaking of structured product transactions via cash or synthetic securitisations or combination of both and issuance of bonds to finance the purchase. CSME has remained dormant since 10 October 2012.

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

The address of the registered office and principal place of business is Level 32, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

The financial statements of the Group and the Company have been prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies.

The financial statements incorporate those activities relating to the Islamic operations of the Group.

The Islamic operations of the Group refer to the purchases of Islamic house financing assets, Islamic hire purchase assets, Islamic personal financing, Islamic mortgage assets and Islamic hire purchase assets from approved originators, issuance of Sukuk under Shariah principles and acquisition, investment in and trading of Islamic financial instruments.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3 to the financial statements.

(a) Standards, amendments to published standards and interpretations that are effective:

The new accounting standards, amendments and improvements to published standards and interpretation that are effective for the Group's and the Company's financial year beginning on 1 January 2017 are as follows:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 'Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses' clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective:

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

  During the financial year, the Group has assessed the impact of changes in MFRS 9 to the classification and measurement of financial assets and liabilities of the Group. The combined application of the entity's business model and cash flows characteristics does not result in significant change in the respective classification of financial assets and liabilities in the statement of financial position as at 31 December 2017. The Group does not expect any significant impact arising from the changes in classification and measurement under MFRS 9.

  MFRS 9 introduces an expected credit loss ("ECL") model on impairment that replaces the incurred loss impairment model used under MFRS 139. The ECL model is forward looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The Group have finalised its impairment model and is assessing the financial impact resulting from the adoption of MFRS 9. The financial impact of MFRS 9 adoption will be reflected as a movement in the Group's opening retained earnings and overall capital position as at 1 January 2018.

  The Group is now progressing to the finalisation of the implementation of the identified changes and will complete this process prior to reporting the interim results for the financial period ending 30 June 2018.

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective (Continued):

- A new five-step process is applied before revenue can be recognised:
  - Identify contracts with customers
  - Identify the separate performance obligations
  - Determine the transaction price of the contract;
  - Allocate the transaction price to each of the separate performance obligations; and
  - Recognise the revenue as each performance obligation is satisfied.

- Key provisions of the new standard are as follows:
  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
  - If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
  - The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
  - There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
  - As with any new standard, there are also increased disclosures.

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

  Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

- The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

  For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The adoption of the new accounting standard will not have a significant impact on the financial results of the Group and the Company.

- Transfers of Investment Property (Amendments to MFRS 140 – effective from 1 January 2018)

  The amendments clarify the existing provisions in the Standard on transfer to, or from the investment property category. The adoption of these amendments is not expected to have any material financial impact on the financial statements of the Group and the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective (Continued):

- IC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018)

  The IC Interpretation addresses the issue on which exchange rate is to be used in reporting foreign currency transactions that involve advance consideration paid or received.

  The adoption of the IC Interpretation is not expected to have any material financial impact on the financial statements of the Group and the Company.

- Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts (Amendments to MFRS 4 – effective from 1 January 2018)

  The amendments address the issues arising from the transitional challenges of applying the temporary exemption from MFRS 9 for an insurer in view that the upcoming new insurance contracts standard MFRS 17 is expected to be issued soon.

  The expiration date of the temporary exemption from MFRS 9 coincides with the tentative effective date of MFRS 17, as decided by IASB in November 2016. In addition, to reduce the impact of temporary volatility in reported results of entity dealing with insurance contracts, the amendments introduce two additional voluntary options, namely an overlay approach and a deferral approach.

  The adoption of these amendments is not expected to have any material financial impact on the financial statements of the Group and the Company.

2.2 Economic entities in the Group

Subsidiaries

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In 2008, the restructuring of the Group involving a share swap of the Company with Cagamas has been accounted for as a reverse acquistion under FRS 3 “Business Combination”.

Under reverse acquisition accounting, the Company recognised a share premium relief reserve to record the excess of investment fair value over share capital. In the consolidated financial statements, a reverse acquisition relief reserve is created to set off against the share premium relief reserve.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Economic entities in the Group (Continued)

Subsidiaries (Continued)

Subsidiaries are consolidated using the purchase method of accounting except for certain business combination which were accounted for using the merger method as follows:

- subsidiaries that were consolidated prior to 1 April 2002 in accordance with Malaysian Accounting Standard 2 "Accounting for Acquisitions and Mergers", the generally accepted accounting principles prevailing at that time;

- business combinations consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 that meet the conditions of a merger as set out in FRS 122_{2004} "Business Combinations";

- internal group reorganisations, as defined in MFRS 122, consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 where:
  - the ultimate shareholders remain the same, and the rights of each such shareholder, relative to the others, are unchanged; and
  - the minorities' share of net assets of the Group is not altered by the transfer.

- business combinations involving entities or businesses under common control with arrangement dates on/after 1 January 2006.

The Group has taken advantage of the exemption provided by MFRS 1, MFRS 3 and FRS 122_{2004} to apply these Standards prospectively. Accordingly, business combinations entered into prior to the respective dates have not been restated to comply with these Standards.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Intragroup transactions, balances and unrealised gains in transactions between group of companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary companies, and is recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Structured entity

A structured entity is an entity where the voting rights are not the dominant factor in deciding who controls the entity, such as when any voting rights are related to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity normally has restricted activities, a narrow or well-defined objective, very little equity and is financed by multiple contractually linked instruments, such as securitisation vehicles, asset-backed financings and some investment funds.

The Group has set up BNM Sukuk Berhad ("BNM Sukuk") as structured entity for the purpose of facilitation of BNM's management of the Islamic banking sector's liquidity respectively.

The Group consolidates any entity that it controls and control is evidenced by all three of the following:

(a) The Group has power over the entity, which is described as having exisitng rights that give the current ability to direct the relevant activities, i.e. the activities that most significantly affect the entity's returns;

(b) The Group has exposure, or rights, to variable returns from its involvement with the entity; and

(c) The Group has the ability to use its power over the entity to affect the amount of its returns.

The Group has not consolidated BNM Sukuk as it does not have control over the entity. The Group merely acts as a facilitator for the issuance of Sukuk BNM Ijarah to finance the purchase of beneficial interest of land and building from BNM and thereafter, to lease back the same land and building to BNM or for the issuance of Sukuk BNM Murabahah via issuance of Trust Certificates to evidence investors beneficial interest over commodity assets and its profits, arising from the sale of commodity assets to BNM.

2.4 Amount due from counterparties and Islamic financing assets

Note 1 to the financial statements describes the principal activities of the Group and the Company, which are inter alia, the purchases of mortgage loans, personal loans and hire purchase and leasing debts. These activities are also set out in the object clauses of the Memorandum of Association of the subsidiaries.

As at the statement of financial position date, amount due from counterparties/Islamic financing assets in respect of mortgage loans, personal loans and hire purchase and leasing debts are stated at their unpaid principal balances due to the Group. Interest/profit income on amount due from counterparties/Islamic financing assets is recognised on an accrual basis and computed at the respective interest/profit rates based on monthly rest.

2.5 Mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets

Mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets are acquired by the Group from the originators at fair values. The originator acts as servicer and remits the principal and interest/profit income from the assets to the Group at specified intervals as agreed by both parties.

As at the statement of financial position date, mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets acquired are stated at their unpaid principal balances due to the Group and adjusted for unaccreted discount. Interest/profit income on the assets are recognised on an accrual basis and computed at the respective interest/profit rates based on monthly rest. The discount arising from the difference between the purchase price and book value of the mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets acquired is accreted to the income statement over the expected remaining life of the assets using the internal rate of return method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 AFS investment securities

AFS investment securities are securities that are acquired and held for yield or capital growth and are usually held for an indefinite period of time, which may be sold in response to market conditions.

Purchases of investments are recognised on the date the Group contracts to purchase the investment. Investments are derecognised when the Group has contracted to sell the investment and transferred substantially all risks and rewards of ownership.

AFS investment securities are carried at fair value on the statement of financial position with cumulative fair value changes reflected under AFS reserve in equity, and recognised in the income statement when the investment securities are disposed of, collected or otherwise sold, or when the securities are determined to be impaired. The fair value of the AFS investment securities is derived from market indicative quotes or observable market prices at the reporting date.

The realised gains or losses on derecognition of AFS investment securities, which are derived based on the difference between the proceeds received and the carrying value of the securities plus any cumulative unrealised gains or losses arising from changes in fair value previously recognised in equity, are credited or charged to the current year's income statement.

See accounting policy on impairment of financial assets in Note 2.9 (a) to the financial statements.

Interest/profit income from AFS investment securities is recognised using the effective interest/profit income rate method. The amortisation of premium and accretion of discount on AFS investment securities are recognised as interest/profit income using the effective yield method.

2.7 Investment in subsidiaries and structured entities

Investment in subsidiaries and structured entities are shown at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. Note 2.9 to the financial statements describes the Group's accounting policy on impairment of assets and Note 3 details out the critical accounting estimates and assumptions.

2.8 Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight line basis to write off the cost of the assets over their estimated useful lives, with the exception of work-in-progress which is not depreciated. Depreciation rates for each category of property and equipment are summarised as follows:

Office equipment	20 – 25%
Furniture and fittings	10%
Motor vehicles	20%

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Property and equipment and depreciation (Continued)

Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

At each statement of financial position date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy on impairment of non-financial assets is reflected in Note 2.9 (b) to the financial statements.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

2.9 Impairment of assets

(a) Financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Where a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the income statements.

(ii) Assets classified as AFS

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised, is removed from equity and recognised in the income statement. If, in the subsequent period, the fair value of a debt instrument classified as AFS investment securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of assets (Continued)

(b) Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The impairment loss is charged to the income statement, unless it reverses a previous revaluation in which it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement.

2.10 Income recognition on mortgage assets and hire purchase/Islamic mortgage assets and Islamic hire purchase and guarantees

Interest income for conventional assets and profit income on Islamic assets are recognised using the effective interest/profit rate method. Accretion of discount is recognised using effective yield method.

Guarantee fee and wakalah fee income are recognised as income when the fees are received in full, based on the straight line method.

2.11 Premium and discount on unsecured bearer bonds and notes/Sukuk

Premium on unsecured bearer bonds and notes/Sukuk represents the excess of the issue price over the redemption value of the bonds and notes/Sukuk are accreted to the income statement over the life of the bonds and notes/Sukuk on an effective yield basis. Where the redemption value exceeds the issue price of the bonds and notes/Sukuk, the difference, being the discount is amortised to the income statement over the life of the bonds and notes/Sukuk on an effective yield basis.

2.12 Current and deferred tax

Current tax expense represents taxation at the current rate based on taxable profit earned during the financial year.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

2.13 Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash and bank balances and deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

2.15 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision maker. The chief operating decision maker is the person or group that allocated resources and assesses the performance of the operating segments of the Group. The Group has determined that the Chief Executive Officer of a subsidiary company, Cagamas Berhad to be the chief operating decision maker.

2.16 Derivative financial instruments and hedge accounting

Derivatives financial instruments consist of interest rate swaps ("IRS"), Islamic profit rate swaps ("IPRS"), cross currency swap ("CCS") and Islamic cross currency swap ("ICCS"). Derivatives financial instruments are used by the Group to hedge the issuance of its bonds/Sukuk from potential movements in interest rate, profit rate or foreign currency exposure. Further details of the derivatives financial instruments are disclosed in Note 7 to the financial statements.

Fair value of derivatives financial instruments is recognised at inception on the statement of financial position, and subsequent changes in fair value as a result of fluctuation in market interest rates, profit rates or foreign currency exposure are recorded as derivative assets (favourable) or derivative liabilities (unfavourable).

For derivatives that are not designated as hedging instruments, losses and gains from the changes in fair value are taken to the income statement.

For derivatives that are designated as hedging instruments, the method of recognising fair value gain or loss depends on the type of hedge.

To apply hedge accounting, the Group documents at the inception the relationship between the hedging instrument and hedged item, including the risk management objective for undertaking various hedge transactions and methods used to assess the effectiveness of the hedge.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, on whether the derivative is highly effective in offsetting changes in the fair value or cash flows of the hedged items.

Cash flow hedge

The effective portion of changes in the fair value of a derivative designated and qualifying as a hedge of future cash flows is recognised directly in the cash flow hedge reserve, and taken to the income statement in the periods when the hedged item affects gain or loss. The ineffective portion of the gain or loss is recognised immediately in the income statement under "Non-interest income".

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow hedge reserve remains until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss in the cash flow hedge reserve is recognised immediately in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Provisions

Provisions are recognised when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Where the Group and the Company expect a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured as the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Zakat

Zakat or "alms giving" is mandatory for all muslims who possesses to minimum nisab.

The Group recognises its obligations towards the payment of zakat on business. Zakat for the current period is recognised when the Group has a current zakat obligation as a result of a zakat assessment. The amount of zakat expenses shall be assessed when the Group has been in operations for at least 12 months, i.e. for the period known as haul.

Zakat rates enacted or substantively enacted by the statement of financial position date are used to determine the zakat expense. The rate of zakat on business, as determined by National Fatwa Council for the financial year is 2.5% (2016: 2.5%) of the zakat base. The zakat base of the Group is determined based on the profit before taxation of Cagamas after deducting dividend income and certain non-operating income and expenses. Zakat on business is calculated by multiplying the zakat rate with zakat base. The amount of zakat assessed is recognised as an expense in the financial year in which it is incurred.

2.19 Employee benefit

(a) Short-term employee benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the financial year in which the associated services are rendered by the employees of the Group.

(b) Defined contributions plans

The Group contributes to the Employees' Provident Fund ("EPF"), the national defined contribution plan. The contributions to EPF are charged to the income statement in the financial year to which they relate to. Once the contributions have been paid, the Group has no further payment obligations in the future. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Intangible assets

(a) Computer software

Acquired computer software and computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to five years.

Costs associated with developing or maintaining computer software programmes are recognised when the costs are incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group, which will generate probable economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of 3 years.

Subsequent to year end, the computer software and computer software licenses shall be amortised over their estimated useful lives of three to ten years.

(b) Service rights to transaction administrator and administrator fees

Service rights to transaction administrator and administrator fees (“Service Rights”) represents secured rights to receive expected future economic benefits by way of transaction administrator and administrator fees for Residential Mortgage-Backed Securities (“RMBS”) and Islamic Residential Mortgage-Backed Securities (“IRMBS”) issuances.

Service rights are recognised as intangible assets at cost and amortised using the straight line method over the tenure of RMBS and IRMBS.

Computer software and service rights are tested annually for any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. Computer software and service rights are carried at cost less accumulated amortisation and accumulated impairment losses. See accounting policy on impairment of non-financial assets in Note 2.9 (b) to the financial statements.

2.21 RMBS and IRMBS

RMBS and IRMBS were issued by the Group to fund the purchases of mortgage assets and Islamic mortgage assets and Islamic mortgage assets from LPPSA. As at the statement of financial position date, RMBS and IRMBS are stated at amortised costs.

Interest expense on RMBS and profit attributable to IRMBS are recognised using the effective yield method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Share capital

(a) Classification

Ordinary shares and Redeemable Preference Shares ("RPS") are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

(b) Dividends to the shareholders of the Group and the Company

Dividends on ordinary shares and RPS are recognised as liabilities when declared before the statement of financial position date. A dividend proposed or declared after the statement of financial position date, but before the financial statements are authorised for issue, is not recognised as a liability at the statement of financial position date. Upon the dividend becoming payable, it will be accounted for as a liability.

2.23 Currency translations

(a) Functional and presentation currency

Items included in the financial statements of the Group and the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The financial statements are presented in Ringgit Malaysia, which is the Group's and Company's functional and presentation currency.

(b) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

2.24 Financial instruments

(a) Description

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another entity, a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable, or an equity instrument of another entity.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Financial instruments (Continued)

(b) Fair value estimation for disclosure purposes

Please refer to Note 44 for the detailed methods and assumptions needed to estimate the fair value for each type of financial instruments.

In assessing fair value of other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine the fair value for the remaining financial instruments. In particular, the fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

2.25 Contingent liabilities and contingent assets

The Group and the Company do not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

The Group and the Company do not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain. A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company.

2.26 Deferred financing fees

Deferred financing fees consist of expenses incurred in relation to the unsecured bond and notes/Sukuk issuance. Upon unsecured bond and notes/Sukuk issuance, deferred financing fees will be deducted from the carrying amount of the unsecured bond and notes/Sukuk and amortised using the effective interest/profit rate method.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and exercise of judgement by management in the process of applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the asset and liability within the next financial year are outlined below.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

(a) *Fair value of derivatives and AFS investment securities*

The estimates and assumptions considered most likely to have an impact on the Group's results and financial positions are those relating to the fair valuation of derivatives and unquoted AFS investment securities for which valuation models are used. The Group has exercised its judgement to select the appropriate valuation techniques for these instruments. However, changes in the assumptions made and market factors used could affect the reported fair values.

(b) *Impairment of mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets*

The Group makes allowances for losses on mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets based on assessment of recoverability. Whilst management is guided by the requirement of the MFRS 139, management makes judgement on the future and other key factors in respect of the recovery of the assets. Among the factors considered are the net realisable value of the underlying collateral value and the capacity to generate sufficient cash flows to service the assets.

(c) *Accretion of discount on mortgage assets and hire purchase assets*

Assumptions are used to estimate cash flow projections of the principal balance outstanding of the mortgage assets and hire purchase assets acquired by the Group and the Company for the purposes of determining accretion of discount. The estimate is determined based on the historical repayment and redemption trend of the borrowers of the mortgage assets and hire purchase assets. Changes in these assumptions could impact the amount recognised as accretion of discount.

(d) *Securitisation and structured entities*

The Group incorporates its structured entities primarily for the purpose of asset securitisation transactions. The Group does not consolidate its structured entities that it does not control. When assessing whether the Group has to consolidate a structured entity, the Group evaluates a range of factors to determine control, including whether it is exposed, or has rights, to variable returns from its involvement with the structured entity and has the ability to affect those returns through its power over the structured entity.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management is an integral part of the Group's business and operations. It encompasses identification, measurement, analysing, controlling, monitoring and reporting of risks on an enterprise-wide basis.

In recent years, the Group enhanced key controls to ensure effectiveness of risk management and its independence from risk taking activities.

The Group will continue to develop its human resources, review existing processes and introduce new approaches in line with best practices in risk management. It is the Group's aim to create strong risk awareness amongst both its front-line and back office staff, where risks are systematically managed and the levels of risk taking are closely aligned to the risk appetite and risk-reward requirements set by the Board of Directors.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

4.1 Risk management structure

The Board of Directors has ultimate responsibility for management of risks associated with the Group's operations and activities. The Board of Directors sets the risk appetite and tolerance level that are consistent with the Group's overall business objectives and desired risk profile. The Board of Directors also reviews and approves all significant risk management policies and risk exposures.

The Board Risk Committee assists the Board of Directors by ensuring that there is effective oversight and development of strategies, policies and infrastructure to manage the Group's risks.

Management Executive Committee is responsible for the implementation of the policies laid down by the Board of Directors by ensuring that there are adequate and effective operational procedures, internal controls and systems for identifying, measuring, analysing, controlling, monitoring and reporting of risks.

The Risk Management and Compliance Department are independent of other departments involved in risk-taking activities. It is responsible for reporting risk exposures independently to the Board Risk Committee and coordinating the management of risks on an enterprise-wide basis.

4.2 Credit risk management

Credit risk is the possibility that a borrower or counterparty fails to fulfil its financial obligations when they fall due. Credit risk arises in the form of on-statement of financial position items such as lending and investments, as well as in the form of off-statement of financial position items such as guarantees and treasury hedging activities.

The Group manages its credit risk by screening borrowers and counterparties, stipulates prudent eligibility criteria and conducts due diligence on loans and financing to be purchased. The Group has in place an internal rating system which sets out the maximum credit limit permissible for each category of rating. The credit limits are reviewed periodically and are determined based on a combination of external ratings, internal credit assessment and business requirements. All credit exposures are monitored on a regular basis and non-compliance is independently reported to management and the Board of Directors for immediate remedy.

Credit risk is also mitigated via underlying assets which comprised mainly of mortgage assets, hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets.

4.3 Market risk management

Market risk is the potential loss arising from adverse movements of market prices and rates. The market risk exposure is limited to interest/profit rate risk and foreign exchange rates only as the Group is not engaged in any equity, foreign exchange or commodity trading activities.

The Group controls its market risk exposure by imposing threshold limits and entering into derivatives contracts. The limits are set based on the Group's risk appetite and the risk-return relationship. These limits are regularly reviewed and monitored. The Group has an Asset Liability Management System which provides tools such as duration gap analysis, interest/profit sensitivity analysis and income simulation under different scenarios to monitor the interest/profit rate risk.

The Group also uses derivative instruments such as interest rate swaps, profit rate swaps and CCS and ICCS to manage and hedge market risk exposures against fluctuations in the interest rates, profit rates and foreign currency exchange rates.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

4.4 Liquidity risk management

Liquidity risk arises when the Group and the Company do not have sufficient funds to meet its financial obligations when they fall due.

The Group mitigates its liquidity risk by matching the timing of purchases of loans and debts with issuance of bonds or Sukuk. The Group plans its cash flow positions and monitors closely every business transaction to ensure that available funds are sufficient to meet business requirements at all times. In addition, the Group sets aside considerable reserve liquidity to meet any unexpected shortfall in cash flow or adverse economic conditions in the financial market.

The Group's liquidity management process, as carried out within the subsidiary and monitored by related departments, includes:

(a) Managing cash flow mismatch and liquidity gap limits which involves assessing all of the Group's cash inflows against its cash outflows to identify the potential for any net cash shortfalls and the ability of the Group to meet its cash obligations when they fall due;

(b) Matching funding of loan purchases against its expected cash flows, duration and tenure of the funding;

(c) Monitoring the liquidity ratios of the Group against internal requirements; and

(d) Managing the concentration and profile of funding by diversification of funding sources.

4.5 Operational Risk Management

Operational risk is defined as the potential loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk associated with the Group and the Company's business practices or market conduct. It also includes the risk of failing to comply with applicable laws and regulations.

The management of operational risk is an important priority for the Group and the Company. To mitigate such operational risks, the Group and the Company have developed an operational risk program and essential methodologies that enable identification, measurement, monitoring and reporting of inherent and emerging operational risks.

The day-to day management of operational risk exposures is through the development and maintenance of comprehensive internal controls and procedures based on segregation of duties, independent checks, segmented system access control and multi-tiered authorisation processes. An incident reporting process is also established to capture and analyse frauds and control lapses.

A periodic self-risk and control assessment is established for business and support units to pre-emptively identify risks and evaluate control effectiveness. Action plans are developed for the control issues identified.

5 CASH AND SHORT-TERM FUNDS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash and balance with banks and other financial institutions	**118,380**	45,633	**13**	14
Money at call and deposits and placements maturing within one month	**565,192**	595,628	**422**	555
Mudharabah money at call and deposits and placements maturing within one month	**109,812**	132,988	**–**	–
	793,384	774,249	**435**	569

6 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Licensed banks	**241,887**	1,160,260	**1,701**	1,446

7 DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments used by the Group to hedge against its interest/profit rate exposure and foreign currency exposure are IRS, IPRS, CCS and ICCS.

IRS/IPRS are used by the Group to hedge against its interest/profit rate exposure arising from the following transactions:

(i) Issuance of fixed rate bonds/Sukuk to fund floating rate asset purchases

The Group pays the floating rate receipts from its floating rate asset purchases to the swap counterparties and receive fixed rate interest/profit in return. This fixed rate interest/profit will then be utilised to pay coupon on the fixed rate bonds/Sukuk issued. Hence, the Group are protected from adverse movements in interest rate.

(ii) Issuance of short duration bonds/Sukuk to fund long-term fixed asset

The Group will issue short duration bonds/Sukuk and enters into swap transaction to receive floating rate interest from and pay fixed rate interest to the swap counterparty. Upon receiving instalment from assets, the Group pays fixed rate interest/profit to the swap counterparty and receives floating rate interest/profit to pay to the bondholders/Sukukholders.

7 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CCS and ICCS are also used by the Group to hedge against foreign currency exposure arising from the issuance of foreign currency bonds/Sukuk to fund assets in functional currency. Illustration of the transaction as follows:

(i) At inception, the Group will swap the proceeds from the foreign currency bonds/Sukuk to the functional currency at the pre-agreed exchange rate with CCS/ICCS counterparty.

(ii) In the interim, the Group will receive interest/profit payment in foreign currency from the CCS/ICCS counterparty and remit the same to the foreign currency bonds/Sukuk holders for coupon payment. Simultaneously, the Group pays interest/profit to the CCS/ICCS counterparty in functional currency using instalment received from assets purchased.

(iii) On maturity, the Group will pay principal in functional currency at the same pre-agreed exchange rate to the CCS/ICCS counterparty and receive amount of principal in foreign currency equal to the principal of the foreign currency bonds/Sukuk which will then be used to redeem the bonds/Sukuk. The Group's foreign currency exposures are from Renminbi ("CNH"), Hong Kong Dollar ("HKD"), US Dollar ("USD"), Singapore Dollar ("SGD") and Australian Dollar ("AUD").

The objective when using any derivative instrument is to ensure that the risk and reward profile of any transaction is optimised. The intention is to only use derivatives to create economically effective hedges. However, because of the specific requirements of MFRS 139 to achieve hedge accounting, not all economic hedges are accounted for as accounting hedges, either because natural accounting offsets are expected or because achieving hedge accounting would be especially onerous.

(a) Cash flow hedges

The Group has designated a number of derivative financial instruments as cash flow hedges during the financial year. The total fair value of derivatives included within cash flow hedges at 31 December 2017 was RM249.5 million (2016: RM853.5 million).

(b) Fair value hedges

The Group does not designate any derivatives as fair value hedges.

(c) Net investment hedges

The Group does not designate any derivatives as net investment hedges.

7 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The table below summarises the derivative financial instruments entered into by the Group.

	Group					
	2017			2016		
	Contract/ Notional amount RM'000	Assets RM'000	Liabilities RM'000	Contract/ Notional amount RM'000	Assets RM'000	Liabilities RM'000
Derivatives designated as cashflow hedges:						
IRS						
One to three years	**2,585,000**	**2,344**	**(11,386)**	1,525,000	4,808	(13,154)
Three to five years	**545,000**	**–**	**(7,904)**	–	–	–
More than five years	**270,000**	**7,100**	**(12,147)**	570,000	5,340	(20,434)
	3,400,000	**9,444**	**(31,437)**	2,095,000	10,148	(33,588)
CCS/ICCS						
Maturing within one year	**2,630,696**	**157,081**	**(47,104)**	2,452,543	95,405	(237)
One to three years	**3,268,500**	**299,814**	**(138,330)**	2,800,000	781,808	–
	5,899,196	**456,895**	**(185,434)**	5,252,543	877,213	(237)
Derivatives not designated as cashflow hedges:						
IPRS						
Maturing within one year	**–**	**–**	**–**	500,000	465	–
	–	**–**	**–**	500,000	465	–
	9,299,196	**466,339**	**(216,871)**	7,847,543	887,826	(33,825)

8 AFS INVESTMENT SECURITIES

	Group	
	2017	**2016**
	RM'000	**RM'000**
At fair value:		
Malaysian government securities	**163,228**	142,324
Corporate bonds	**576,301**	498,711
Government investment issues	**804,393**	588,827
Sukuk	**1,023,481**	891,939
Quasi government bonds	**35,735**	35,611
Quasi government Sukuk	**993,127**	702,038
Unit Trust	**101,292**	81,266
	3,697,557	2,940,716

The maturity structure of AFS investment securities are as follows:

Maturing within one year	**993,020**	665,044
One to three years	**895,084**	747,838
Three to five years	**722,469**	239,535
More than five years	**1,086,984**	1,288,299
	3,697,557	2,940,716

9 AMOUNT DUE FROM COUNTERPARTIES

Relating to:

Mortgage loans	**19,545,875**	13,872,352
Hire purchase and leasing debts	**286,304**	258,746
Personal loans	**38,199**	165,067
	19,870,378	14,296,165

The maturity structure of amount due from counterparties are as follows:

Maturing within one year	**6,285,506**	5,154,450
One to three years	**7,604,833**	8,135,868
Three to five years	**5,345,007**	50,824
More than five years	**635,032**	995,023
	19,870,378	14,296,165

10 ISLAMIC FINANCING ASSETS

	Group	
	2017 RM'000	**2016 RM'000**
Relating to:		
Islamic house financing	**5,434,616**	4,225,536
Islamic hire purchase financing	**–**	382,819
Islamic personal financing	**109,762**	699,334
	5,544,378	5,307,689

The maturity structure of Islamic financing assets are as follows:

	2017 RM'000	**2016 RM'000**
Maturing within one year	**1,730,200**	3,001,966
One to three years	**2,574,231**	1,387,816
Three to five years	**1,239,947**	500,003
More than five years	**–**	417,904
	5,544,378	5,307,689

11 MORTGAGE ASSETS – CONVENTIONAL

	2017 RM'000	**2016 RM'000**
Purchase without recourse ("PWOR")	**7,678,054**	8,494,015

The maturity structure of mortgage assets – conventional are as follows:

	2017 RM'000	**2016 RM'000**
Maturing within one year	**1,293,609**	1,421,190
One to three years	**1,757,839**	1,943,216
Three to five years	**1,580,064**	1,691,021
More than five years	**4,200,356**	4,784,845
	8,831,868	9,840,272
Less:		
Unaccreted discount	**(1,103,011)**	(1,293,278)
Allowance for impairment losses	**(50,803)**	(52,979)
	7,678,054	8,494,015

12 MORTGAGE ASSETS – ISLAMIC

	Group 2017 RM'000	Group 2016 RM'000
PWOR	**8,465,367**	9,058,668

The maturity structure of mortgage assets – Islamic are as follows:

	2017 RM'000	2016 RM'000
Maturing within one year	**1,026,874**	1,052,212
One to three years	**1,498,548**	1,500,987
Three to five years	**1,473,894**	1,498,895
More than five years	**5,522,157**	6,216,942
	9,521,473	10,269,036
Less:		
Unaccreted discount	**(1,013,003)**	(1,167,903)
Allowance for impairment losses	**(43,103)**	(42,465)
	8,465,367	9,058,668

13 HIRE PURCHASE ASSETS – ISLAMIC

	2017 RM'000	2016 RM'000
PWOR	**953**	1,924

The maturity structure of hire purchase assets – Islamic are as follows:

	2017 RM'000	2016 RM'000
Maturing within one year	**970**	2,001
One to three years	**45**	153
	1,015	2,154
Less:		
Unaccreted discount	**–**	(15)
Allowance for impairment losses	**(62)**	(215)
	953	1,924

14 OTHER ASSETS

	2017 RM'000	2016 RM'000
Compensation receivable from originator on mortgage assets	**11,837**	12,255
Staff loans and financing	**3,974**	4,487
Deposits	**908**	927
Prepayments	**1,509**	1,276
Other receivables	**328**	1,001
	18,556	19,946

15 PROPERTY AND EQUIPMENT

	Group			
	Office equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
Cost				
As at 1 January 2017	**5,613**	**4,653**	**627**	**10,893**
Additions	**2,602**	**–**	**–**	**2,602**
Disposals	**(270)**	**(4)**	**–**	**(274)**
As at 31 December 2017	**7,945**	**4,649**	**627**	**13,221**
Accumulated depreciation				
As at 1 January 2017	**(3,893)**	**(3,549)**	**(559)**	**(8,001)**
Charge for the financial year	**(537)**	**(454)**	**(66)**	**(1,057)**
Disposals	**270**	**4**	**–**	**274**
As at 31 December 2017	**(4,160)**	**(3,999)**	**(625)**	**(8,784)**
Net book value as at 31 December 2017	**3,785**	**650**	**2**	**4,437**
Cost				
As at 1 January 2016	4,834	4,667	627	10,128
Additions	1,048	13	–	1,061
Disposals	(269)	(27)	–	(296)
As at 31 December 2016	5,613	4,653	627	10,893
Accumulated depreciation				
As at 1 January 2016	(3,614)	(3,112)	(434)	(7,160)
Charge for the financial year	(547)	(460)	(125)	(1,132)
Disposals	268	23	–	291
As at 31 December 2016	(3,893)	(3,549)	(559)	(8,001)
Net book value as at 31 December 2016	1,720	1,104	68	2,892

16 INTANGIBLE ASSETS

	Group				
	Service rights RM'000	Computer software RM'000	Computer software licenses RM'000	Work in progress RM'000	Total RM'000
Cost					
As at 1 January 2017	**16,712**	**12,047**	**5,523**	**7,020**	**41,302**
Additions	**–**	**35**	**309**	**3,394**	**3,738**
As at 31 December 2017	**16,712**	**12,082**	**5,832**	**10,414**	**45,040**
Accumulated amortisation					
As at 1 January 2017	**(12,246)**	**(12,017)**	**(3,007)**	**–**	**(27,270)**
Charge for the financial year	**(563)**	**(48)**	**(805)**	**–**	**(1,416)**
As at 31 December 2017	**(12,809)**	**(12,065)**	**(3,812)**	**–**	**(28,686)**
Net book value as at 31 December 2017	**3,903**	**17**	**2,020**	**10,414**	**16,354**
Cost					
As at 1 January 2016	16,712	12,047	4,832	–	33,591
Additions	–	–	691	7,020	7,711
As at 31 December 2016	16,712	12,047	5,523	7,020	41,302
Accumulated amortisation					
As at 1 January 2016	(11,682)	(11,943)	(2,238)	–	(25,863)
Charge for the financial year	(564)	(74)	(769)	–	(1,407)
As at 31 December 2016	(12,246)	(12,017)	(3,007)	–	(27,270)
Net book value as at 31 December 2016	4,466	30	2,516	7,020	14,032

Service rights are amortised on a straight line basis over the tenure of RMBS/IRMBS pools. The remaining amortisation period of the intangible assets ranges from 3 to 10 years (2016: 4 to 11 years).

17 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes that relates to the same tax authority. The following amounts, determined after appropriate offsetting, are shown on the statement of financial position.

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Deferred tax assets (before offsetting)	**14,501**	13,965	**–**	–
Deferred tax liabilities (before offsetting)	**(539,287)**	(512,353)	**(3)**	(3)
Deferred tax liabilities	**(524,786)**	(498,388)	**(3)**	(3)
The movements of deferred tax are as follows:				
As at 1 January	**(498,388)**	(474,876)	**(3)**	(2)
Debit to income statement (Note 35)	**(27,128)**	(31,175)	**–**	(1)
Credit to other comprehensive income	**730**	7,663	**–**	–
As at 31 December	**(524,786)**	(498,388)	**(3)**	(3)

The movements in deferred tax assets and liabilities of the Group during the financial year comprise the following:

	Group			
	As at 1 January RM'000	**Recognised to income statement RM'000**	**Recognised to reserves RM'000**	**As at 31 December RM'000**
2017				
Deferred tax assets				
Revaluation reserves of AFS investment securities	**4,045**	**–**	**(3,723)**	**322**
Net unrealised losses on revaluation of derivatives financial instruments under cash flow hedge accounting	**5,911**	**–**	**3,896**	**9,807**
Provisions	**1,248**	**(940)**	**–**	**308**
Temporary difference relating to guarantee/Wakalah fees	**2,761**	**1,303**	**–**	**4,064**
	13,965	**363**	**173**	**14,501**

17 DEFERRED TAXATION (CONTINUED)

	Group			
	As at 1 January RM'000	**Recognised to income statement RM'000**	**Recognised to reserves RM'000**	**As at 31 December RM'000**
2017 (Continued)				
Deferred tax liabilities				
Revaluation reserves of AFS investment securities	**–**	**–**	**(308)**	**(308)**
Accelerated tax depreciation	**(305)**	**(970)**	**–**	**(1,275)**
Unaccreted discount on mortgage assets	**(507,843)**	**(28,160)**	**–**	**(536,003)**
Temporary difference relating to accrued interest on deposits and placements	**(2,489)**	**1,639**	**–**	**(850)**
Net unrealised gains on revaluation of derivatives financial instruments under cash flow hedge accounting	**(1,716)**	**–**	**865**	**(851)**
	(512,353)	**(27,491)**	**557**	**(539,287)**
2016				
Deferred tax assets				
Revaluation reserves of AFS investment securities	5,304	–	(1,259)	4,045
Net unrealised losses on revaluation of derivatives financial instruments under cash flow hedge accounting	–	–	5,911	5,911
Provisions	1,027	221	–	1,248
Temporary difference relating to guarantee/Wakalah fees	1,600	1,161	–	2,761
	7,931	1,382	4,652	13,965

17 DEFERRED TAXATION (CONTINUED)

	Group			
	As at 1 January RM'000	**Recognised to income statement RM'000**	**Recognised to reserves RM'000**	**As at 31 December RM'000**
2016 (Continued)				
Deferred tax liabilities				
Accelerated tax depreciation	(892)	587	–	(305)
Unaccreted discount on mortgage assets	(475,578)	(32,265)	–	(507,843)
Temporary difference relating to accrued interest on deposits and placements	(1,610)	(879)	–	(2,489)
Net unrealised gains on revaluation of derivatives financial instruments under cash flow hedge accounting	(4,727)	–	3,011	(1,716)
	(482,807)	(32,557)	3,011	(512,353)

	Company			
	As at 1 January RM'000	**Recognised to income statement RM'000**	**Recognised to reserves RM'000**	**As at 31 December RM'000**
2017				
Deferred tax liabilities				
Temporary difference relating to interest receivables on deposits and placements	**(3)**	**–**	**–**	**(3)**
2016				
Deferred tax liabilities				
Temporary difference relating to interest receivables on deposits and placements	(2)	(1)	–	(3)

18 INVESTMENT IN SUBSIDIARIES

	Company	
	2017 RM'000	**2016 RM'000**
Unquoted shares at cost	**4,181,628**	4,181,628

The subsidiaries of the Company are as follows:

Name	Principal activities	Country of Incorporation	Direct and indirect interest in equity held by the Company 2017 %	2016 %
Cagamas	Purchases of mortgage loans, personal loans and hire purchases and leasing debts from primary lenders approved by Cagamas and the issuance of bonds and notes to finance these purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.	Malaysia	**100**	100
CGP*	Undertake the issuance of bonds and notes in foreign currency. CGP is a wholly-owned subsidiary of Cagamas.	Labuan	**100**	100
CGS*	Undertake the issuance of Sukuk in foreign currency. CGS is a wholly-owned subsidiary of Cagamas.	Malaysia	**100**	100
CMBS	Purchases of mortgage assets and Islamic mortgage assets from the LPPSA and issuance of RMBS and IRMBS to finance the purchases.	Malaysia	**100**	100
CSRP	Provision of mortgage guarantee and mortgage indemnity business and other form of credit protection in relation to Skim Rumah Pertamaku (My First Home Scheme) ("SRP") and Skim Perumahan Belia (Youth Housing Scheme) ("SPB").	Malaysia	**100**	100
CMGP**	Provision of mortgage guarantee and mortgage indemnity business and other form of credit protection.	Malaysia	**100**	100
CSME**	Purchase of Small and Medium Enterprise ("SME") loans and/or structured product transactions via cash and synthetic securitisation or combination of both and issuance of bonds to finance the purchase.	Malaysia	**100**	100

* indirect interest via investment in Cagamas
** both companies have remained dormant throughout the financial year

19 INVESTMENT IN STRUCTURED ENTITY

	Company	
	2017 **RM'000**	**2016** **RM'000**
Unquoted shares at cost	**–***	–*

* denotes RM2

The structured entity of the Company is as follows:

Name	Principal activities	Direct and indirect interest in equity held by the Company 2017 %	2016 %
BNM Sukuk	Undertake the issuance of Islamic securities investment namely BNM Sukuk Ijarah based on Syariah principles to finance the purchase of the beneficial interest of land and building from BNM and, thereafter to lease back the same land and building to BNM for the contractual period which is similar to the tenure of the BNM Sukuk Ijarah, and BNM Sukuk Murabahah based on Syariah principles via the issuance of Trust Certificates to evidence investors' beneficial interest over commodity assets and its profit, arising from the sale of commodity assets to BNM. The Company has remained dormant since 1 September 2015.	**100**	100

The results and net assets of BNM Sukuk are not consolidated as the Group does not have control over the entity. The Group merely acts as a facilitator for the issuance of Sukuk BNM Ijarah to finance the purchase of beneficial interest of land and building from BNM and thereafter, to lease back the same land and building to BNM, and BNM Sukuk Murabahah based on Syariah principles via the issuance of Trust Certificates. The Group has no power to direct the activities of the entity and has no exposure or rights to the returns for its involvement with the entity. The Group also has no power to affect the amounts of these returns.

20 UNSECURED BEARER BONDS AND NOTES

		Group			
		2017		2016	
	Year of maturity	Amount outstanding RM'000	Effective interest rate %	Amount outstanding RM'000	Effective interest rate %
(a) Floating rate	2017	**–**	**–**	300,000	3.820
	2018	**300,000**	**3.480**	–	–
Add:					
Interest payable		**1,001**		1,052	
		301,001		301,052	
(b) Conventional commercial papers	2018	**700,000**	**3.560**	–	–
Add:					
Interest payable		**1,297**		–	
		701,297		–	
(c) Medium-term notes	2017	**–**	**–**	5,795,017	1.600 – 4.640
	2018	**6,429,072**	**1.520 – 5.710**	4,887,493	1.520 – 5.710
	2019	**5,078,550**	**2.745 – 5.280**	5,288,107	2.745 – 5.280
	2020	**4,053,485**	**2.530 – 6.000**	540,000	2.530 – 6.000
	2021	**315,000**	**4.150 – 5.380**	315,000	4.150 – 5.380
	2022	**5,510,000**	**3.900 – 4.650**	485,000	3.900 – 4.480
	2023	**525,000**	**4.250 – 6.050**	525,000	4.250 – 6.050
	2024	**430,000**	**4.000 – 5.520**	430,000	4.000 – 5.520
	2025	**640,000**	**4.550 – 4.650**	640,000	4.550 – 4.650
	2026	**10,000**	**4.410**	10,000	4.410
	2027	**275,000**	**4.140 – 4.900**	275,000	4.140 – 4.900
	2028	**890,000**	**4.750 – 6.500**	890,000	4.750 – 6.500
	2029	**245,000**	**5.500 – 5.750**	245,000	5.500 – 5.750
	2035	**160,000**	**5.070**	160,000	5.070
		24,561,107		20,485,617	
Add:					
Interest payable		**201,523**		166,929	
Unaccreted premium		**5,852**		29	
Less:					
Deferred financing fees		**(4,572)**		(4,372)	
Unamortised discount		**(1,268)**		(2,669)	
		24,762,642		20,645,534	
		25,764,940		20,946,586	

20 UNSECURED BEARER BONDS AND NOTES (CONTINUED)

The maturity structure of unsecured bearer bonds and notes are as follows:

	Group	
	2017 RM'000	**2016 RM'000**
Maturing within one year	**7,626,244**	6,260,024
One to three years	**9,138,696**	10,171,562
Three to five years	**5,825,000**	855,000
More than five years	**3,175,000**	3,660,000
	25,764,940	20,946,586

(a) Floating rate notes

Bonds with variable coupon plus a spread redeemable at par on the due dates.

(b) Commercial paper

Commercial paper are short term instruments with maturities ranging from 1 to 12 months and were issued at a discount or at par (coupon-bearing).

(c) Medium-term notes

The medium term notes are redeemable at par on the due dates, unless previously redeemed, together with the accrued interest where applicable.

Included in medium term notes are medium term-notes issued in foreign currency ("EMTN"). The EMTN are issued by CGP, and are unconditionally and irrevocably guaranteed by the Group. The unsecured bearer bonds and notes outstanding at the end of financial year which are not in the functional currencies of the Group are as follows:

	Group	
	2017 RM'000	**2016 RM'000**
AUD	**318,441**	–
HKD	**521,812**	580,170
USD	**3,870,347**	3,279,146
SGD	**1,349,057**	1,032,586
CNH	**–**	974,256
	6,059,657	5,866,158

Notes to the Financial Statements (Continued)

21 SUKUK

	Group				
		2017		2016	
	Year of maturity	Amount outstanding RM'000	Effective profit rate %	Amount outstanding RM'000	Effective profit rate %
(a) Islamic commercial papers	2017	**–**	**–**	500,000	3.620
	2018	**305,000**	**3.510**	–	–
Add:					
Profit payable		**1,173**		248	
		306,173		500,248	
(b) Islamic medium-term notes					
	2017	**–**	**–**	2,625,512	2.300 – 4.050
	2018	**1,592,025**	**1.850 – 5.800**	1,145,000	1.850 – 5.800
	2019	**1,187,000**	**3.750 – 5.280**	1,187,000	3.750 – 5.280
	2020	**2,230,000**	**3.980 – 6.000**	1,180,000	3.980 – 6.000
	2021	**245,000**	**4.150 – 5.380**	245,000	4.150 – 5.380
	2022	**2,150,000**	**3.900 – 4.700**	460,000	3.900 – 4.700
	2023	**995,000**	**4.250 – 6.350**	995,000	4.250 – 6.350
	2024	**315,000**	**4.000 – 5.520**	315,000	4.000 – 5.520
	2025	**455,000**	**4.550 – 4.650**	455,000	4.550 – 4.650
	2026	**20,000**	**4.410 – 4.920**	20,000	4.410 – 4.920
	2027	**15,000**	**4.140**	15,000	4.140
	2028	**1,080,000**	**4.750 – 6.500**	1,080,000	4.750 – 6.500
	2029	**180,000**	**5.500 – 5.750**	180,000	5.500 – 5.750
	2033	**675,000**	**5.000**	675,000	5.000
		11,139,025		10,577,512	
Add:					
Profit payable		**114,351**		116,678	
Unaccreted premium		**39,014**		21,857	
Less:					
Deferred financing fee		**(29)**		(75)	
Unamortised discount		**(656)**		(1,307)	
		11,291,075		10,714,665	
		11,597,878		11,214,913	

21 SUKUK (CONTINUED)

The maturity structure of the Sukuk are as follows:

	Group	
	2017 RM'000	**2016 RM'000**
Maturing within one year	**2,011,864**	3,242,363
One to three years	**3,456,014**	2,352,550
Three to five years	**2,395,000**	1,425,000
More than five years	**3,735,000**	4,195,000
	11,597,878	11,214,913

(a) Islamic commercial papers

Islamic commercial papers are short-term instruments with maturities ranging from 1 to 12 months and were issued at a discount or at par (profit-bearing).

(b) Islamic medium-term notes

Islamic medium-term notes ("IMTNs") are issued by the Group based on various Islamic principles. The IMTNs have tenures of more than 1 year and are issued at discount or at par (profit-bearing). Profit distributions of the IMTNs are normally made on half-yearly/quarterly basis.

(c) Islamic variable medium-term notes

Islamic variable medium-term notes are issued by the Group based on various Islamic principles. These Sukuk have tenures of more than 1 year and carry a profit rate which is determined at the point of issuance. Profit distributions of the IMTNs are normally made on half-yearly/quarterly basis.

Included in Islamic medium-term notes are Islamic medium-term notes issued in foreign currency ("Islamic EMTN"). The Islamic EMTN is issued by CGS, and is unconditionally and irrevocably guaranteed by the Group. The Sukuk outstanding at the end of financial year which are not in the functional currencies of the Group are as follows:

	Group	
	2017 RM'000	**2016 RM'000**
SGD	**152,843**	468,751

22 RMBS

	Group				
		2017		2016	
	Year of maturity	Amount outstanding RM'000	Effective interest rate %	Amount outstanding RM'000	Effective interest rate %
RMBS	2017	–	–	870,000	4.52 – 5.34
	2019	**260,000**	**4.70**	260,000	4.70
	2020	**385,000**	**5.65**	385,000	5.65
	2022	**250,000**	**4.90**	250,000	4.90
	2025	**265,000**	**5.92**	265,000	5.92
	2027	**105,000**	**5.08**	105,000	5.08
		1,265,000		2,135,000	
Add:					
Interest payable		**5,318**		8,775	
		1,270,318		2,143,775	

The maturity structure of the RMBS are as follows:

	Group	
	2017 RM'000	2016 RM'000
Maturing within one year	**5,318**	878,775
One to three years	**645,000**	260,000
Three to five years	**250,000**	385,000
More than five years	**370,000**	620,000
	1,270,318	2,143,775

The RMBS have the following features:

(a) The subsidiary, CMBS has an option to redeem the RMBS partially subject to the terms and conditions of each transaction.

(b) The RMBS's interest is payable quarterly in arrears.

(c) The RMBS are constituted by a Trust Deed made between CMBS and the Trustee, to act for the benefit of the RMBS holders.

(d) The RMBS constitute direct, unconditional, unsubordinated and secured obligations of CMBS and rank pari passu without discrimination, preference or priority among themselves, but are subject to payments preferred under law and the Issue Documents.

(e) The RMBS are issued on a limited recourse basis. Holders of the RMBS will be limited in their recourse to the underlying mortgage assets, the related collections and the proceeds from the enforcement of other securities related to the mortgage assets.

23 IRMBS

		Group			
		2017		2016	
	Year of maturity	Amount outstanding RM'000	Effective profit rate %	Amount outstanding RM'000	Effective profit rate %
IRMBS	2017	–	–	810,000	3.90 – 5.01
	2019	**245,000**	**4.02**	245,000	4.02
	2020	**400,000**	**5.27**	400,000	5.27
	2022	**320,000**	**4.17**	320,000	4.17
	2027	**290,000**	**4.34**	290,000	4.34
		1,255,000		2,065,000	
Add:					
Profit attributable		**6,353**		10,803	
		1,261,353		2,075,803	

The maturity structure of the IRMBS are as follows:

	Group	
	2017 RM'000	2016 RM'000
Maturing within one year	**6,353**	820,803
One year to three years	**645,000**	245,000
Three years to five years	**320,000**	400,000
More than five years	**290,000**	610,000
	1,261,353	2,075,803

The IRMBS have the following features:

(a) The subsidiary, CMBS has an option to redeem the IRMBS partially subject to the terms and conditions of each transaction.

(b) The IRMBS's profit is distributable quarterly in arrears.

(c) The IRMBS are constituted by a Trust Deed made between CMBS and the Trustee, to act for the benefit of the IRMBS holders.

(d) The IRMBS constitute direct, unconditional, unsubordinated and secured obligations of CMBS and rank pari passu without discrimination, preference or priority among themselves, but are subject to payments preferred under law and the Issue Documents.

(e) The IRMBS are issued on a limited recourse basis. Holders of the IRMBS will be limited in their recourse to the underlying Islamic mortgage assets, the related collections and the proceeds from the enforcement of other securities related to the Islamic mortgage assets.

24 OTHER LIABILITIES

	Group	
	2017 RM'000	**2016 RM'000**
Provision for zakat	**927**	1,011
Amount due to GOM	**36,734**	41,209
Other payables and accruals	**23,572**	19,855
Provision for Kafalah expenses	**14**	14
	61,247	62,089

25 SHARE CAPITAL

	Group and Company			
	2017		**2016**	
	Amount RM'000	**Number of shares '000**	**Amount RM'000**	**Number of shares '000**
Ordinary shares issued				
As at 1 January/31 December	**150,000**	**150,000**	150,000	150,000

	Group	
	2017 RM'000	**2016 RM'000**
Redeemable preference shares:		
As at 1 January	**–**	–
Issued during the year	**–***	–
As at 31 December	**–***	–

* denotes RM1

On 20 October 2017, CMBS allotted and issued 1 RPS of RM1 to CSRP, held in trust for LPPSA. The trust mechanism had been agreed under a Tripartite Trust Deed dated 19 October 2017 whereby CSRP will hold the RPS in trust for LPPSA to facilitate the distribution of discretionary bonus fee (in the form of dividend) to LPPSA upon full settlement of RMBS for pool 2004-1.

25 SHARE CAPITAL (CONTINUED)

The salient features of the RPS are as follows;

(a) The holder of RPS has no voting rights;

(b) The RPS does not carry any fixed dividend. Dividend distribution is discretionary and subject to the approval of the Board of Directors of CMBS;

(c) The dividend distribution can be in the form of cash and/or in specie upon full settlement of all obligations and liabilities of CMBS in respect of the respective RMBS/IRMBS pools; and

(d) The RPS will be redeemed and cancelled after the last and final payment of discretionary bonus fee.

26 RESERVES

(a) AFS reserves

This amount represents the unrealised fair value gains or losses on AFS investment securities, net of taxation.

(b) Cash flow hedge reserves

This amount represents the effective portion of changes in fair value on derivatives designated and qualifying as hedge of future cash flows, net of taxation.

(c) Regulatory reserves

The Group has adopted the BNM Guidelines on Classification and Impairment Provisions for Loans/Financing – Maintenance of Regulatory Reserves which was effective from 31 December 2015 on voluntary basis. The policy document requires banking institution to maintain, in aggregate, collective impairment provisions and regulatory reserves of no less than 1.2% of the total outstanding loans/financing, net of individual impairment provisions.

27 NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM6,048,384,000 of the Group and RM4,183,786,000 of the Company respectively (2016: RM5,935,562,000 of the Group and RM4,183,666,000 of the Company respectively) by 150,000,000 ordinary shares of the Group and the Company in issue.

Basic and diluted earnings per share is calculated by dividing the profit for the financial year of RM414,296,000 of the Group and RM30,120,000 of the Company respectively (2016: RM439,379,000 of the Group and RM30,120,000 of the Company respectively) by 150,000,000 ordinary shares of the Group and the Company in issue. For the diluted earnings per share calculation, no adjustment has been made to weighted number of ordinary shares in issue as there are no dilutive potential ordinary shares.

28 INTEREST INCOME

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Amount due from counterparties	**721,338**	563,317	**–**	–
Mortgage assets	**359,462**	387,986	**–**	–
Compensation from mortgage assets	**48**	73	**–**	–
Mortgage assets repurchased	**235**	420	**–**	–
AFS investment securities	**107,794**	102,015	**–**	–
Deposits and placements with financial institutions	**39,626**	27,718	**159**	158
	1,228,503	1,081,529	**159**	158
Accretion of discount less amortisation of premium (net)	**205,542**	218,974	**–**	–
	1,434,045	1,300,503	**159**	158

29 INTEREST EXPENSE

	Group	
	2017 RM'000	**2016 RM'000**
Floating rate notes	**10,431**	13,640
Medium-term notes	**883,768**	766,363
RMBS	**99,806**	109,697
Commercial paper	**2,285**	2,990
	996,290	892,690

30 NON-INTEREST (EXPENSE)/INCOME

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Net derivatives expense	**(69,287)**	(43,463)	**–**	–
Gain on disposal of AFS investment securities	**2,756**	3,863	**–**	–
Loss on disposal of property and equipment	**–**	(10)	**–**	–
Guarantee fee income	**1,331**	810	**–**	–
Reclassification adjustments on fair value gains on CCS, transfer from equity	**236,599**	247,650	**–**	–
Loss on foreign exchange	**(236,856)**	(246,478)	**–**	–
Dividend income	**–**	–	**30,000**	30,000
Other non-operating (expense)/income	**(415)**	139	**–**	–
	(65,872)	(37,489)	**30,000**	30,000

31 PERSONNEL COSTS

	Group	
	2017 RM'000	2016 RM'000
Salary and allowances	**13,528**	12,380
Bonus	**6,647**	6,674
Overtime	**58**	63
EPF and SOCSO	**3,859**	2,542
Insurance	**747**	747
Others	**2,463**	3,082
	27,302	25,488

32 WRITE-BACK FOR IMPAIRMENT LOSSES

	Group	
	2017 RM'000	2016 RM'000
Write-back for impairment losses	**72**	10,340

33 DIRECTORS' REMUNERATION

The Directors of the Company who have held office during the financial year are as follows:

Non-Executive Directors

Encik Nik Mohd Hasyudeen bin Yusoff (appointed as Chairman on 1.7.2017)
Tan Sri Dato' Sri Tay Ah Lek
Datuk George Ratilal
Datuk Abdul Farid bin Alias
Datuk Azizan bin Haji Abd Rahman
Dato' Lee Kok Kwan
Puan Wan Hanisah binti Wan Ibrahim
Datuk Shaik Abdul Rasheed bin Abdul Ghaffour
Dato' Ooi Sang Kuang (resigned as Chairman and Director on 1.7.2017)

The aggregate amount of emoluments received by the Directors of the Group and the Company during the financial year is as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Directors' fees	**1,016**	897	**443**	395
Directors' other emoluments	**2,026**	1,964	**205**	153
	3,042	2,861	**648**	548

D&O insurance premium of RM170,000 (2016: RM170,000) were paid to cover all the Directors and Officers of the Group and were borne by Cagamas.

34 PROFIT BEFORE TAXATION AND ZAKAT

The following items have been charged/(credited) in arriving at profit before taxation and zakat:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Directors' remuneration (Note 33)	**3,042**	2,861	**–***	–*
Rental of premises	**2,648**	2,648	**–**	–
Hire of equipment	**529**	435	**–**	–
Auditor's remuneration				
– Audit fees	**439**	312	**–***	-*
– Non-audit fees	**162**	42	**–***	-*
Depreciation of property and equipment	**1,057**	1,132	**–**	–
Amortisation of intangible assets	**1,416**	1,407	**–**	–
Servicers fees	**4,198**	3,767	**–**	–
Repairs and maintenance	**(395)**	4,945	**–**	–
Donations and sponsorship	**10**	416	**–**	–
Corporate expenses	**673**	734	**–**	–
Travelling expenses	**510**	684	**–**	–
Write-back of impairment losses	**(72)**	(10,340)	–	–
Loss on disposal of property and equipment	–	10	**–**	–

* Directors' remuneration of RM647,750 (2016: RM548,418) and auditor's remuneration of RM36,252, which include audit fee of RM30,517 and non-audit fee of RM5,735 (2016: RM34,200, comprising RM28,790 and non-audit fee of RM5,410 respectively) for the Company in the financial year were borne by Cagamas.

35 TAXATION

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
(a) Tax charge for the financial year				
Malaysian income tax:				
– Current tax	**105,851**	102,654	**38**	37
– Deferred taxation (Note 17)	**27,128**	31,175	**–**	1
	132,979	133,829	**38**	38
Current tax:				
– Current year	**104,275**	103,899	**38**	37
– Under/(over) provision in prior year	**1,576**	(1,245)	**–**	–
Deferred taxation:				
– Origination and reversal of temporary differences (Note 17)	**27,128**	31,175	**–**	1
	132,979	133,829	**38**	38

(b) Reconciliation of income tax expense

The tax on the Group's and the Company's profit before taxation and zakat differs from the theoretical amount that would arise using the statutory income tax rate of Malaysia as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Profit before taxation and zakat	**548,248**	574,245	**30,158**	30,158
Tax calculated at Malaysian tax rate of 24%	**131,580**	137,819	**7,238**	7,238
Expenses not deductible for tax purposes	**456**	430	**–**	–
Income not subject to tax	**–**	–	**(7,200)**	(7,200)
Deductible tax losses from subsidiary utilised	**(27)**	(465)	**–**	–
Under/(over) provision in prior year	**1,576**	(1,533)	**–**	–
Deduction arising from zakat contribution	**(249)**	(666)	**–**	–
Different tax rate in Labuan	**(1,011)**	(825)	**–**	–
Loss not subject to tax	**29**	466	**–**	–
Others	**625**	(1,397)	**–**	–
	132,979	133,829	**38**	38

36 DIVIDENDS

Dividends of the Group and the Company are as follows:

	Group and Company			
	2017		2016	
	Per share Sen	Total amount RM'000	Per share Sen	Total amount RM'000
On ordinary shares:				
First interim dividend	**15.00**	**22,500**	15.00	22,500
Second interim dividend	**5.00**	**7,500**	5.00	7,500
	20.00	**30,000**	20.00	30,000
On redeemable preference shares:				
Dividend paid in specie	**–**	**126,430**	–	–
Dividend paid in cash	**–**	**139,472**	–	–
	–	**295,902**	–	–

At the forthcoming Annual General Meeting, a first interim dividend in respect of the financial year ended 31 December 2017 of 15 sen per ordinary share (2016: 15 sen per ordinary share) amounting to RM22,500,000 (2016: RM22,500,000) will be proposed for approval by the shareholders of the Company.

The dividends on RPS for the financial year ended 31 December 2017 was approved by the Board of Directors of a subsidiary company, CMBS on 6 December 2017, and paid in the current financial year. This is shown as a reduction in the retained earnings of the Group, as reflected in the statement of changes in equity in the current financial year.

The dividend paid to LPPSA is determined by CMBS, based on guidelines, criteria and performance indicators approved by the Board. This is based on residual asset value of each specific pool of mortgage assets/Islamic mortgage assets underlying the RMBS/IRMBS, upon full settlement of all obligations and liabilities of CMBS in respect of the respective RMBS/IRMBS pools. The dividend distribution can be in the form of cash and/or in specie.

The directors of CMBS do not recommend the payment of any further dividend on RPS for the financial year ended 31 December 2017.

37 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties and relationships

The related parties and their relationships with the Group and the Company are as follows:

Related parties	Relationships
Cagamas	Subsidiary
CGP	Subsidiary of Cagamas
CGS	Subsidiary of Cagamas
CMBS	Subsidiary
CSRP	Subsidiary and trustee to LPPSA
CMGP	Subsidiary
CSME	Subsidiary
Bank Negara Malaysia ("BNM")	Other related party
BNM Sukuk	Structured entity
Government of Malaysia ("GOM")	Other related party
LPPSA	Originator/servicer and entity related to GOM
Key management personnel	Other related party
Entities in which key management personnel have control	Other related party

BNM is regarded as a related party on the basis of having significant influence over the Group and the Company.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Company either directly or indirectly. The key management personnel of the Company include all the Directors of the Group, certain members of senior management and their close family members.

Entities in which key management personnel have control are defined as entities that are controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel.

(b) Significant related party transactions and balances

Most of the transactions involving mortgage loans, personal loans, hire purchase and leasing debts and Islamic financing facilities as well as issuance of unsecured bonds and Sukuk are transacted with the shareholders of the Group. These transactions have been disclosed on the statement of financial position and income statement of the Group.

During the financial year ended 31 December 2017, a subsidiary of the Company, Cagamas, has entered into a shared service arrangement with another subsidiary company, CSRP. Under this arrangement, Cagamas sets out the scope of services performed for CSRP in the normal course of business.

37 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Significant related party transactions and balances (Continued)

Set out below are significant related party transactions and balances of the Group.

	Group
	Other related party RM'000
2017	
Expenses/(income)	
FAST* and RENTAS** charges	**(18)**
Directors' fee & allowances	**101**
Servicers fees	**4,198**
Amount due from/(to)	
BNM current accounts	**30**
Reimbursement of operating expenses	**6**
Directors' fee & allowances	**(85)**
Servicers fees	**(943)**
2016	
Expenses/(income)	
FAST* and RENTAS** charges	(1)
Directors' fee & allowances	70
Servicers fees	3,767
Amount due from/(to)	
BNM current accounts	25
Directors' fee & allowances	(60)
Servicers fees	(825)

* denotes Fully Automated System for Issuing and Tendering ("FAST")

** denotes Real-Time Electronic Transfer of Funds and Securities ("RENTAS")

The Group's key management personnel received remuneration for services rendered during the financial year. The total compensation paid to the Group's key management personnel was RM7,390,607 (2016: RM8,049,828).

The total remuneration paid to the Directors is disclosed in Note 33 to the financial statements.

37 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Transaction with the GOM and its related parties

As BNM has significant influence over the Group and the Company, the GOM and entities controlled, jointly controlled or has significant influence by the GOM are related parties of the Group and the Company.

The Group enters into transactions with many of these entities to purchase mortgage loans, personal loans and hire purchase and leasing debts and to issue bonds and notes to finance the purchase as part of its normal operations. The Group also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing funded by issuance of Sukuk.

38 COMMITMENT AND CONTINGENCY

(a) As at the end of the financial year, its subsidiary company, CSRP's guarantee exposure to the SRP and SPB schemes for guarantee and Wakalah contracts amounted to RM48,827,604 (2016: RM28,213,406) and RM33,087,030 (2016: RM12,010,406) respectively.

Included above are contingent liabilities relating to possible claims against CSRP that may arise from defaults in the repayment of principal and interest of some of the loans covered under the guarantee and Wakalah contracts. The contingent liabilities that estimated arising from the guarantee and Wakalah are RM379,839 (2016: RM119,050) and RM435,797 (2016: RM234,917). However, no provision is made as at year end as a reliable estimate of the provision cannot be made.

(b) A summary of the capital commitments are as follows:

	Group	
	2017 RM'000	**2016 RM'000**
Capital expenditure:		
Authorised and contracted for	**12,024**	20,501
Authorised but not contracted for	**3,911**	3,258
	15,965	23,759
Analysed as follows:		
Equipment and others	**196**	616
Computer hardware and software	**15,769**	23,143
	15,965	23,759

39 LEASE COMMITMENTS

The Group has lease commitments in respect of rented premise and hired equipment, all of which are classified as operating leases.

A summary of the long-term commitments are as follows:

	Group	
	2017 RM'000	**2016 RM'000**
Maturing within one year	**4,727**	4,618
One to three years	**6,593**	3,700
Three to five years	**–**	96
	11,320	8,414

40 INTEREST/PROFIT RATE RISK

Cash flow interest/profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest/profit rates. Fair value interest/profit rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest/profit rates. The Group takes on the exposure of the effects of fluctuations in the prevailing levels of market interest/profit rates on both its fair value and cash flow risks. Interest/profit margin may increase as a result of such changes but may reduce or create losses in the event that an unexpected movement in the market interest/profit rates arise.

The following tables summarise the Group's exposure to interest/profit rate risks. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Group's exposure to interest/profit rate movements, are included in "other assets" and "other liabilities" under the heading "non-interest bearing".

The tables also represent a static position which provides an indication of the potential impact on the Group's statement of financial position through gap analysis of the interest/profit rate sensitive assets, liabilities and off-statement of financial position items by time bands. A positive interest/profit rate sensitivity gap exists when more interest/profit sensitive assets than interest/profit sensitive liabilities reprice or mature during a given time period. Similarly, a negative interest/profit rate sensitivity gap exists when more interest/profit sensitive liabilities than interest/profit sensitive assets reprice or mature during a given time period. Any negative interest/profit rate sensitivity gap is to be funded by the Group's shareholders' funds, unsecured bearer bonds and notes or Sukuk or money market borrowings.

For decision-making purposes, the Group manages their exposure to interest/profit rate risk. The Group sets limits on the sensitivity of the Group's forecasted net interest income/profit income at risk to projected changes in interest/profit rates. The Group also undertakes duration analysis before deciding on the size and tenure of the bonds/Sukuk to be issued to ensure that the Group's assets and liabilities are closely matched within the tolerance limit set by the Board of Directors.

40 INTEREST/PROFIT RATE RISK (CONTINUED)

Group 2017	Within one year RM'000	One to three years RM'000	Three to five years RM'000	More than five years RM'000	Non-interest/ Non-profit bearing RM'000	Total RM'000
Financial assets						
Cash and short-term funds	675,040	–	–	–	118,344	793,384
Deposits and placements with financial institutions	220,666	16,635	4,586	–	–	241,887
AFS investment securities	993,020	895,084	722,469	1,086,984	–	3,697,557
Amount due from counterparties	6,285,506	7,604,833	5,345,007	635,032	–	19,870,378
Islamic financing assets	1,730,200	2,574,231	1,239,947	–	–	5,544,378
Mortgage assets:						
– Conventional	1,293,609	1,757,839	1,580,064	4,200,356	(1,153,814)	7,678,054^1
– Islamic	1,026,874	1,498,548	1,473,894	5,522,157	(1,056,106)	8,465,367^2
Hire purchase assets:						
– Conventional	2	–	–	–	(2)	–^3
– Islamic	970	45	–	–	(62)	953^4
Other assets	169,058	303,201	840	9,050	38,063	520,212
	12,394,945	14,650,416	10,366,807	11,453,579	(2,053,577)	46,812,170
Financial liabilities						
Unsecured bearer bonds and notes	7,626,244	9,138,696	5,825,000	3,175,000	–	25,764,940
Sukuk	2,011,864	3,456,014	2,395,000	3,735,000	–	11,597,878
RMBS	5,318	645,000	250,000	370,000	–	1,270,318
IRMBS	6,353	645,000	320,000	290,000	–	1,261,353
Deferred guarantee fees	–	–	–	–	5,080	5,080
Deferred Wakalah fees	–	–	–	–	11,848	11,848
Other liabilities	58,490	146,234	–	12,147	619,144	836,015
	9,708,269	14,030,944	8,790,000	7,582,147	636,072	40,747,432
Interest/profit sensitivity gap	2,686,676	619,472	1,576,807	3,871,432		
Cumulative gap	2,686,676	3,306,148	4,882,955	8,754,387		

^1 Includes impairment losses on conventional mortgage assets of RM50,802,978.
^2 Includes impairment losses on Islamic mortgage assets of RM43,102,337.
^3 Includes impairment losses on conventional hire purchase assets of RM2,059.
^4 Includes impairment losses on Islamic hire purchase assets of RM62,050.

40 INTEREST/PROFIT RATE RISK (CONTINUED)

Group 2016	Within one year RM'000	One to three years RM'000	Three to five years RM'000	More than five years RM'000	Non-interest/ Non-profit bearing RM'000	Total RM'000
Financial assets						
Cash and short-term funds	728,616	–	–	–	45,633	774,249
Deposits and placements with financial institutions	1,160,260	–	–	–	–	1,160,260
AFS investment securities	665,044	747,838	239,535	1,288,299	–	2,940,716
Amount due from counterparties	5,154,450	8,135,868	50,824	955,023	–	14,296,165
Islamic financing assets	3,001,966	1,387,816	500,003	417,904	–	5,307,689
Mortgage assets:						
– Conventional	1,421,190	1,943,216	1,691,021	4,784,845	(1,346,257)	8,494,015^1
– Islamic	1,052,212	1,500,987	1,498,895	6,216,942	(1,210,368)	9,058,668^2
Hire purchase assets:						
– Conventional	2	–	–	–	(2)	–^3
– Islamic	2,001	153	–	–	(230)	1,924^4
Other assets	103,925	785,964	2,774	11,906	34,118	938,687
	13,289,666	14,501,842	3,983,052	13,674,919	(2,477,106)	42,972,373
Financial liabilities						
Unsecured bearer bonds and notes	6,260,024	10,171,562	855,000	3,660,000	–	20,946,586
Sukuk	3,242,363	2,352,550	1,425,000	4,195,000	–	11,214,913
RMBS	878,775	260,000	385,000	620,000	–	2,143,775
IRMBS	820,803	245,000	400,000	610,000	–	2,075,803
Deferred guarantee fees	–	–	–	–	3,850	3,850
Deferred Wakalah fees	–	–	–	–	7,648	7,648
Other liabilities	13,391	–	–	20,434	596,379	630,204
	11,215,356	13,029,112	3,065,000	9,105,434	607,877	37,022,779
Interest/profit sensitivity gap	2,074,310	1,472,730	918,052	4,569,485		
Cumulative gap	2,074,310	3,547,040	4,465,092	9,034,577		

^1 Includes impairment losses on conventional mortgage assets of RM52,979,173.

^2 Includes impairment losses on Islamic mortgage assets of RM42,465,544.

^3 Includes impairment losses on conventional hire purchase assets of RM2,059.

^4 Includes impairment losses on Islamic hire purchase assets of RM214,714.

40 INTEREST/PROFIT RATE RISK (CONTINUED)

The table below summarises the sensitivity of the Group's financial instruments to interest/profit rates movements. The analysis is based on the assumptions that interest/profit will fluctuate by 100 basis points, with all other variables held constant.

	Group	
	-100 basis points RM'000	+100 basis points RM'000
2017		
AFS reserves	114,239	(107,332)
Amount due from counterparties (floating rate)	6,362	(6,202)
Unsecured bonds and notes (floating rate)	(1,100)	1,087
Taxation effects on the above at tax rate of 24%	(28,680)	26,987
Effect on shareholders' funds	90,821	(85,460)
As percentage of shareholders' funds	1.4%	-1.4%
2016		
AFS reserves	96,654	(91,113)
Amount due from counterparties (floating rate)	3,565	(3,429)
Unsecured bonds and notes (floating rate)	(3,213)	3,168
Taxation effects on the above at tax rate of 24%	(23,282)	21,930
Effect on shareholders' funds	73,724	(69,444)
As percentage of shareholders' funds	1.2%	-1.2%

41 CREDIT RISK

41.1 Credit risk concentration

The Group's counterparties are mainly LPPSA, the GOM, financial institutions and individuals in Malaysia. The financial institutions are governed by the Financial Services Act ("FSA"), 2013 and the Islamic Financial Services Act ("IFSA"), 2013 and are subject to periodic review by the BNM. The following tables summarise the Group's maximum exposure to credit risk by counterparty or customer or the industry in which they are engaged as at the statement of financial position date.

41 CREDIT RISK (CONTINUED)

41.1 Credit risk concentration (Continued)

Industrial analysis based on its industrial distribution

	On-statement of financial position										Off-statement of financial position	
Group	Cash and short-term funds RM'000	Deposits and placements with financial institutions RM'000	Derivatives financial instruments RM'000	AFS investment securities RM'000	Amount due from counter parties RM'000	Islamic financing assets RM'000	Mortgage assets-Conventional RM'000	Mortgage assets-Islamic RM'000	Hire purchase assets-Islamic RM'000	Other assets RM'000	Financial guarantee RM'000	Total RM'000
2017												
Government bodies	-	-	-	1,213,144	-	-	-	-	-	11,960	-	1,225,104
Financial institutions:												
– Commercial banks	724,872	241,887	466,339	683,369	18,615,537	4,273,959	-	-	-	-	-	25,005,963
– Investment banks	68,510	-	-	-	-	-	-	-	-	-	-	68,510
Communication, electricity, gas and water	-	-	-	146,705	-	-	-	-	-	-	-	146,705
Transportation	-	-	-	718,265	-	-	-	-	-	-	-	718,265
Leasing	-	-	-	-	286,304	-	-	-	-	-	-	286,304
Consumers	-	-	-	-	-	-	7,678,054	8,465,367	953	-	81,915	16,226,289
Construction	-	-	-	311,282	-	-	-	-	-	-	-	311,282
Related company	-	-	-	21,387	-	-	-	-	-	-	-	21,387
Corporate	-	-	-	147,415	968,537	1,270,419	-	-	-	-	-	2,386,371
Others	2	-	-	455,990	-	-	-	-	-	6,596		462,588
Total	793,384	241,887	466,339	3,697,557	19,870,378	5,544,378	7,678,054	8,465,367	953	18,556	81,915	46,858,768
2016												
Government bodies	-	-	-	663,409	-	-	-	-	-	12,855	-	676,264
Financial institutions:												
– Commercial banks	684,214	1,160,260	887,826	699,048	13,002,576	4,355,927	-	-	-	-	-	20,789,851
– Investment banks	90,033	-	-	-	-	-	-	-	-	-	-	90,033
Communication, electricity, gas and water	-	-	-	116,225	-	-	-	-	-	-	-	116,225
Transportation	-	-	-	356,546	-	-	-	-	-	-	-	356,546
Leasing	-	-	-	-	258,746	-	-	-	-	-	-	258,746
Consumers	-	-	-	-	-	-	8,494,015	9,058,668	1,924	-	40,224	17,594,831
Construction	-	-	-	346,315	-	-	-	-	-	-	-	346,315
Related company	-	-	-	313,105	-	-	-	-	-	-	-	313,105
Corporate	-	-	-	-	1,034,843	951,762	-	-	-	-	-	1,986,605
Others	2	-	-	446,068	-	-	-	-	-	7,091	-	453,161
Total	774,249	1,160,260	887,826	2,940,716	14,296,165	5,307,689	8,494,015	9,058,668	1,924	19,946	40,224	42,981,682

41 CREDIT RISK (CONTINUED)

41.2 Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets, Islamic mortgage assets and Islamic hire purchase assets

All amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets, Islamic mortgage assets and Islamic hire purchase assets are categorised as either:

– neither past due nor impaired; or
– past due but not individually impaired.

The impairment allowance is assessed on a pool of financial assets which are not individually impaired.

Credit risk loans comprise amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets, Islamic mortgage assets and Islamic hire purchase assets which are due more than 90 days. The coverage ratio is calculated in reference to total impairment allowance and the carrying value (before impairment) of credit risk loans.

Group	Neither past due nor impaired RM'000	Past due but not individually impaired* RM'000	Total RM'000	Impairment allowance RM'000	Total carrying value RM'000	Credit risk loan RM'000	Coverage ratio %
2017							
Amount due from counterparties	19,870,378	–	19,870,378	–	19,870,378	–	–
Islamic financing assets	5,544,378	–	5,544,378	–	5,544,378	–	–
Mortgage assets:							
– Conventional	7,646,258	82,599	7,728,857	50,803	7,678,054	82,599	62
– Islamic	8,435,419	73,051	8,508,470	43,103	8,465,367	73,051	59
Hire purchase assets:							
– Conventional	–	2	2	2	–	2	100
– Islamic	953	62	1,015	62	953	62	100
	41,497,386	155,714	41,653,100	93,970	41,559,130	155,714	

* these assets have been provided for under collective assessment

41 CREDIT RISK (CONTINUED)

41.2 Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets, Islamic mortgage assets and Islamic hire purchase assets (Continued)

Group	Neither past due nor impaired RM'000	Past due but not individually impaired* RM'000	Total RM'000	Impairment allowance RM'000	Total carrying value RM'000	Credit risk loan RM'000	Coverage ratio %
2016							
Amount due from counterparties	14,296,165	–	14,296,165	–	14,296,165	–	–
Islamic financing assets	5,307,689	–	5,307,689	–	5,307,689	–	–
Mortgage assets:							
– Conventional	8,438,677	108,317	8,546,994	52,979	8,494,015	108,317	49
– Islamic	9,025,664	75,469	9,101,133	42,465	9,058,668	75,469	56
Hire purchase assets:							
– Conventional	–	2	2	2	–	2	100
– Islamic	1,798	341	2,139	215	1,924	341	63
	37,069,993	184,129	37,254,122	95,661	37,158,461	184,129	

* these assets have been provided for under collective assessment

Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets, Islamic mortgage assets and Islamic hire purchase assets neither past due nor individually impaired are as below:

	Group			
	2017		2016	
	Strong RM'000	Total RM'000	Strong RM'000	Total RM'000
Amount due from counterparties	**19,870,378**	**19,870,378**	14,296,165	14,296,165
Islamic financing assets	**5,544,378**	**5,544,378**	5,307,689	5,307,689
Mortgage assets:				
– Conventional	**7,646,258**	**7,646,258**	8,438,677	8,438,677
– Islamic	**8,435,419**	**8,435,419**	9,025,664	9,025,664
Hire purchase assets:				
– Islamic	**953**	**953**	1,798	1,798
	41,497,386	**41,497,386**	37,069,993	37,069,993

The amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets of the Group has been identified with strong credit risk quality which has a very high likelihood for full recovery.

41 CREDIT RISK (CONTINUED)

41.2 Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets, Islamic mortgage assets and Islamic hire purchase assets (Continued)

An aging analysis of mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets that are past due but not individually impaired is set out below:

	Group				
	91 to 120 days RM'000	**121 to 150 days RM'000**	**151 to 180 days RM'000**	**Over 180 days RM'000**	**Total RM'000**
2017					
Mortgage assets:					
– Conventional	**6,334**	**5,111**	**5,113**	**66,041**	**82,599**
– Islamic	**6,935**	**4,052**	**5,656**	**56,408**	**73,051**
Hire purchase assets:					
– Conventional	**–**	**–**	**–**	**2**	**2**
– Islamic	**–**	**–**	**2**	**60**	**62**
	13,269	**9,163**	**10,771**	**122,511**	**155,714**
2016					
Mortgage assets:					
– Conventional	8,223	4,576	5,043	90,475	108,317
– Islamic	6,606	4,473	3,169	61,221	75,469
Hire purchase assets:					
– Conventional	–	–	–	2	2
– Islamic	–	–	28	313	341
	14,829	9,049	8,240	152,011	184,129

For the purpose of this analysis, an asset is considered past due and included above when payment due under strict contractual terms is received late or missed. The amount included is either the entire financial assets, not just the payment, of both principal and interest, overdue on mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets. This may result from administrative delays on the side of the borrower leading to assets being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary.

The impairment allowance on such loans is calculated on a collective, not individual basis as this reflects homogeneous nature of the assets, which allows statistical techniques to be used, rather than individual assessments.

For the financial year ended 31 December 2017, the Group has deemed it impracticable to disclose the financial effect of collateral for its mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets.

41 CREDIT RISK (CONTINUED)

41.2 Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets, Islamic mortgage assets and Islamic hire purchase assets (Continued)

The movement in impairment allowance are as follows:

	Group			
	As at 1 January RM'000	**(Write-back)/ Allowance made RM'000**	**(Allowance, written-off)/ write-back RM'000**	**As at 31 December RM'000**
2017				
Mortgage assets:				
– Conventional	**52,979**	**(1,161)**	**(1,015)**	**50,803**
– Islamic	**215**	**1,089**	**(451)**	**43,103**
Hire purchase assets:				
– Conventional	**2**	**–**	**–**	**2**
– Islamic	**42,465**	**–**	**(153)**	**62**
	95,661	**(72)**	**(1,619)**	**93,970**
2016				
Mortgage assets:				
– Conventional	57,585	(2,125)	(2,481)	52,979
– Islamic	51,198	(8,215)	(518)	42,465
Hire purchase assets:				
– Conventional	1	–	1	2
– Islamic	70	–	145	215
	108,854	(10,340)	(2,853)	95,661

41 CREDIT RISK (CONTINUED)

41.3 AFS investment securities

AFS investment securities are measured on fair value basis. The Group uses the rating by external rating agencies, mainly RAM and MARC. The table below presents an analysis of AFS investment securities external ratings:

	Group			
	Investment grade			
	GOM RM'000	AAA RM'000	AA1 to AA2/ AA+ to A- RM'000	Total RM'000
2017				
Group				
Malaysian government securities	**163,228**	**–**	**–**	**163,228**
Government investment issues	**804,393**	**–**	**–**	**804,393**
Corporate bonds	**–**	**178,334**	**397,967**	**576,301**
Sukuk	**20,345**	**978,289**	**24,847**	**1,023,481**
Quasi government bonds	**35,735**	**–**	**–**	**35,735**
Quasi government Sukuk	**804,829**	**–**	**188,298**	**993,127**
Unit trust	**–**	**–**	**101,292**	**101,292**
Total	**1,828,530**	**1,156,623**	**712,404**	**3,697,557**
2016				
Malaysian government securities	142,324	–	–	142,324
Government investment issues	588,827	–	–	588,827
Corporate bonds	–	122,786	375,925	498,711
Sukuk	–	791,893	100,046	891,939
Quasi government bonds	35,611	–	–	35,611
Quasi government Sukuk	702,038	–	–	702,038
Unit trust	–	–	81,266	81,266
Total	1,468,800	914,679	557,237	2,940,716

None of these assets are impaired nor past due but not impaired.

41 CREDIT RISK (CONTINUED)

41.4 Offsetting financial instruments

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Group					
				Related amounts not set off in the statement of financial position		
	Gross amount of recognised financial liabilities RM'000	Gross amount of recognised financial assets set off in the statement of financial position RM'000	Net amount of financial liabilities presented in the statement of financial position RM'000	Financial instrument RM'000	Cash collateral placed RM'000	Net amount RM'000
2017						
Derivatives financial liabilities	**(216,871)**	**–**	**(216,871)**	**–**	**7,760**	**(209,111)**
2016						
Derivatives financial liabilities	(33,825)	–	(33,825)	–	13,690	(20,135)

42 LIQUIDITY RISK

42.1 Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification of debt portfolios. This involves managing market access in order to widen sources of funding to avoid over dependence on a single funding source as well as to minimise cost of funding.

42 LIQUIDITY RISK (CONTINUED)

42.2 Liquidity pool

The Group's liquidity pool comprised the following cash and unencumbered assets:

	Cash and short term funds with licensed financial institutions RM'000	Derivative financial instruments RM'000	AFS investment securities RM'000	Mortgage assets RM'000	Islamic mortgage assets RM'000	Amount due from counterparties RM'000	Islamic financing assets RM'000	Other available liquidity RM'000	Total RM'000
2017	**1,035,271**	**466,339**	**3,697,557**	**7,678,054**	**8,465,367**	**19,870,378**	**5,544,378**	**19,031**	**46,776,375**
2016	1,934,509	887,826	2,940,716	8,494,015	9,058,668	14,296,165	5,307,689	21,029	42,940,617

42.3 Contractual maturity of financial liabilities

The table below presents the cash flows payable by the Group under financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are contractual undiscounted cash flow, whereas the Group manages the liquidity risk based on a different basis, which does not result in a significantly different analysis.

	Group					
	On demand up to one month RM'000	One to three months RM'000	Three to twelve months RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
2017						
Financial liabilities						
Unsecured bearer bonds and notes	**5,287**	**988,206**	**6,449,841**	**14,963,696**	**3,175,000**	**25,582,030**
Sukuk	**–**	**547,843**	**1,349,344**	**5,851,014**	**3,735,000**	**11,483,201**
RMBS	**–**	**16,744**	**50,500**	**1,077,736**	**442,418**	**1,587,398**
IRMBS	**–**	**14,234**	**42,625**	**1,103,722**	**346,585**	**1,507,166**
Unexpired financial guarantee contracts	**81,915**	**–**	**–**	**–**	**–**	**81,915**
Other liabilities	**1,091**	**–**	**–**	**–**	**36,734**	**37,825**
	88,293	**1,567,027**	**7,892,310**	**22,996,168**	**7,735,737**	**40,279,535**
Assets held for managing liquidity risk	**1,100,990**	**2,391,070**	**8,013,754**	**24,494,161**	**11,713,070**	**47,713,045**

42 LIQUIDITY RISK (CONTINUED)

42.3 Contractual maturity of financial liabilities (Continued)

	Group					
	On demand up to one month RM'000	**One to three months RM'000**	**Three to twelve months RM'000**	**One to five years RM'000**	**Over five years RM'000**	**Total RM'000**
2016						
Financial liabilities						
Unsecured bearer bonds and notes	2,958	722,096	5,391,903	11,026,562	3,660,000	20,803,519
Sukuk	–	1,048,751	2,080,000	3,777,550	4,195,000	11,101,301
RMBS	–	27,421	945,995	864,840	722,559	2,560,815
IRMBS	–	23,300	866,658	821,451	685,715	2,397,124
Unexpired financial guarantee contracts	40,224	–	–	–	–	40,224
Other liabilities	232	–	–	–	41,209	41,441
	43,414	1,821,568	9,284,556	16,490,403	9,304,483	36,944,424
Assets held for managing liquidity risk	925,496	2,068,606	9,369,107	17,436,337	13,530,663	43,330,209

42.4 Derivative liabilities

The Group's derivatives comprise IRS, IPRS, CCS and ICCS entered by a subsidiary, Cagamas, for which net cash flows are exchanged for hedging purposes. The derivatives held by Cagamas are settled on a net basis.

The following table analyses the subsidiary's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of all derivatives. The amounts disclosed in the table below are the contractual undiscounted cash flows.

42 LIQUIDITY RISK (CONTINUED)

42.4 Derivative liabilities (Continued)

	Group					
	On demand up to one month RM'000	**One to three months RM'000**	**Three to twelve months RM'000**	**One to five years RM'000**	**Over five years RM'000**	**Total RM'000**
2017						
Derivatives held for hedging						
– IRS/IPRS	**(4,204)**	**17,029**	**(9,403)**	**20,358**	**(38,449)**	**(14,669)**
– CCS/ICCS	**318,831**	**(644,764)**	**1,790,793**	**(1,295,756)**	**–**	**169,104**
2016						
Derivatives held for hedging						
– IRS/IPRS	–	1,243	(12,804)	(17,938)	(3,397)	(32,896)
– CCS/ICCS	–	(138)	(140)	–	–	(278)

43 FOREIGN EXCHANGE RISK

The Group is exposed to translation foreign exchange rate on its PWR assets, unsecured bonds and notes and Sukuk denominated in currencies other than the functional currencies of the Group.

The Group hedges 100% of its foreign currency denominated unsecured bonds and notes and Sukuk. The Group takes minimal exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group manages its exposure by entering into derivative contracts.

43 FOREIGN EXCHANGE RISK (CONTINUED)

43.1 Exposure to foreign currency risk

	Group				
	AUD RM'000	**HKD RM'000**	**USD RM'000**	**SGD RM'000**	**CNH RM'000**
2017					
Derivatives financial instruments	**319,497**	**521,812**	**3,851,753**	**1,505,110**	**–**
Unsecured bonds and notes	**318,441**	**521,812**	**3,870,347**	**1,349,057**	**–**
Sukuk	**–**	**–**	**–**	**152,843**	**–**
	318,441	**521,812**	**3,870,347**	**1,501,900**	**–**
2016					
Derivatives financial instruments	–	583,885	3,280,824	1,508,608	–
Amount due from counterparties	–	–	–	–	974,781
	–	583,885	3,280,824	1,508,608	974,781
Unsecured bonds and notes	–	580,170	3,279,146	1,032,586	974,256
Sukuk	–	–	–	468,751	–
Derivatives financial instruments	–	–	–	–	1,397
	–	580,170	3,279,146	1,501,337	975,653

43 FOREIGN EXCHANGE RISK (CONTINUED)

43.2 Currency risk sensitivity analysis

A 1% weakening of the Ringgit Malaysia against the following currencies as at the date of statement of financial position would have increased equity and profit for the financial year as summarises in table below. The sensitivity analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The sensitivity analysis assumes that all other variable, in particular interest/profit rates, remained constant and ignores any impact of CCS/ICCS.

	Group			
	2017		2016	
	Equity RM'000	Profit RM'000	Equity RM'000	Profit RM'000
AUD	**6**	**–**	–	–
HKD	**2**	**–**	(26)	–
USD	**(166)**	**(1)**	(5)	(1)
SGD	**18**	**–**	51	–
CNH	**–**	**–**	(1)	–
	(140)	**(1)**	19	(1)

44 FAIR VALUE OF FINANCIAL INSTRUMENTS

44.1 Fair value of financial instruments carried at fair value

Financial instruments comprise financial assets, financial liabilities and off-statement of financial position financial instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The information presented herein represents the estimates of fair values as at the date of the statement of financial position.

The face value of financial assets (less any estimated credit adjustments) and financial liabilities with a maturity period of less than one year is assumed to approximate their fair values.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a number of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values.

The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest/profit rates relative to their terms. The extent to which instruments are favourable or unfavourable and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

44 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

44.1 Fair value of financial instruments carried at fair value (Continued)

The fair value of the AFS investment securities is derived from market indicative quotes or observable market prices at the date of the statement of financial position.

The estimated fair value of the IRS, IPRS, CCS and ICCS are based on the estimated cash flows discounted using the market interest/profit rate, taking into account the effect of the entity's net exposure to the credit risk of that counterparty at the statement of financial position date.

The table below analyses financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Group			
	Level 1 RM'000	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
2017				
Assets				
AFS investment securities	**–**	**3,697,557**	**–**	**3,697,557**
Derivative financial instruments	**–**	**466,339**	**–**	**466,339**
Liabilities				
Derivative financial instruments	**–**	**216,871**	**–**	**216,871**
2016				
Assets				
AFS investment securities	–	2,940,716	–	2,940,716
Derivative financial instruments	–	887,826	–	887,826
Liabilities				
Derivative financial instruments	–	33,825	–	33,825

44 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

44.2 Fair value of financial instruments carried at other than fair value

The following methods and assumptions were used to estimate the fair value of financial instruments as at the statement of financial position date:

(a) Cash and short-term funds and deposits and placements with licensed financial institutions

The carrying amount of cash and short-term funds and deposits and placements with licensed financial institutions are used as reasonable estimate of fair values as the maturity is less than or equal to a month.

(b) Other financial assets

Other financial assets include other debtors and deposits. The fair value of other financial assets is estimated at their carrying amount due to short tenure of less than one year.

(c) Other financial liabilities

Other financial liabilities include creditors and accruals. The fair value of other financial liabilities is estimated at their carrying amount due to short tenure of less than one year.

The estimated fair values of the Group's financial instruments approximated their carrying values in the statement of financial position except for the following:

	Group			
	2017		2016	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Financial assets				
Amount due from counterparties	**19,870,378**	**19,944,333**	14,296,165	14,280,849
Islamic financing assets	**5,544,378**	**5,504,117**	5,307,689	5,332,670
Mortgage assets:				
– Conventional	**7,678,054**	**7,790,297**	8,494,015	9,494,141
– Islamic	**8,465,367**	**8,842,572**	9,058,668	10,048,822
Hire purchase assets:				
– Islamic	**953**	**1,186**	1,924	1,930
	41,559,130	**42,082,505**	37,158,461	39,158,412

44 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

44.2 Fair value of financial instruments carried other than fair value (Continued)

The estimated fair values of the Group's financial instruments approximated their carrying values in the statement of financial position except for the following (Continued):

	Group			
	2017		2016	
	Carrying value RM'000	**Fair value RM'000**	**Carrying value RM'000**	**Fair value RM'000**
Financial liabilities				
Unsecured bearer bonds and notes	**25,764,940**	**26,158,440**	20,946,586	21,317,956
Sukuk	**11,597,878**	**11,925,862**	11,214,913	11,587,453
RMBS	**1,270,318**	**1,314,893**	2,143,775	2,192,490
IRMBS	**1,261,353**	**1,284,377**	2,075,803	2,102,296
	39,894,489	**40,683,572**	36,381,077	37,200,195

The fair value of the fixed rate assets portfolio of amount due from counterparties is based on the present value of estimated future cash flows discounted at the prevailing market rates of loans with similar credit risk and maturities at the statement of financial position date and is therefore within Level 3 of the fair value hierarchy. The fair value of the floating rate assets portfolio of amount due from counterparties is based on their carrying amount as the re-pricing date of the floating rate assets is not greater than 6 months.

The fair value of the Islamic financing assets is based on the present value of estimated future cash flows discounted at the prevailing market rates of financing with similar credit risk and maturities at the statement of financial position date and is therefore within Level 3 of the fair value hierarchy.

The fair value of the mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets are derived at using the present value of future cash flows discounted based on the mortgage assets and hire purchase assets/ Islamic mortgage assets and Islamic hire purchase assets market yield to maturity at the statement of financial position date and, is therefore within Level 3 of the fair value hierarchy.

The fair value of the unsecured bearer bonds and notes, Sukuk, RMBS and IRMBS are derived at using the present value of future cash flows discounted based on the coupon rate at the statement of financial position date and, is therefore within Level 3 of the fair value hierarchy.

45 SEGMENT REPORTING

The Chief Executive Officer (the chief operating decision maker) of Cagamas makes strategic decisions and allocation of resources centrally on behalf of the Group. The Group has determined the following operating segments based on reports reviewed by the chief operating decision maker in making its strategic decisions:

(a) PWR

Under the PWR scheme, the Group purchases the mortgage loans, personal loans, hire purchase and leasing debts and Islamic financing facilities such as home financing, hire purchase financing and personal financing from the primary lenders approved by the Group. The loans and financing are acquired with recourse to the primary lenders should the loans and financing fail to comply with agreed prudential eligibility criteria.

(b) PWOR

Under the PWOR scheme, the Group purchases the mortgage assets and hire purchase assets from counterparty on an outright basis for the remaining tenure of the respective assets purchased. The purchases are made without recourse to counterparty, other than certain warranties to be provided by the seller pertaining to the quality of the assets.

(c) Mortgage guarantee

Under the mortgage guarantee scheme, the Group derives its income by providing financial guarantee protection for a fee. Upfront guarantee and Wakalah fees received from the financial guarantee contracts are deferred and amortised to the income statement over the term of the guarantee contracts.

In each reporting segments, income is derived by seeking investments to maximise returns. These returns consist of interest/profit and gains on the appreciation in the value of investments.

There were no changes in the reportable segments during the financial year.

45 SEGMENT REPORTING (CONTINUED)

	Group			
	PWR RM'000	PWOR RM'000	Mortgage guarantee RM'000	Total RM'000
2017				
External revenue	1,018,795	1,139,563	13,698	2,172,056
External interest/profit expense	(808,012)	(685,777)	–	(1,493,789)
Profit from operations	108,994	426,325	12,929	548,248
Zakat	(627)	(300)	(46)	(973)
Taxation	(26,357)	(103,254)	(3,368)	(132,979)
Profit after taxation and zakat by segment	82,010	322,771	9,515	414,296
Segment assets	27,935,702	18,620,880	255,588	46,812,170
Segment liabilities	26,445,915	14,282,445	19,072	40,747,432
Other information:				
Capital expenditure	4,312	2,028	–	6,340
Depreciation and amortisation	1,682	791	–	2,473

Notes to the Financial Statements (Continued)

45 SEGMENT REPORTING (CONTINUED)

	Group			
	PWR RM'000	PWOR RM'000	Mortgage guarantee RM'000	Total RM'000
2016				
External revenue	871,751	1,206,724	11,235	2,089,710
External interest/profit expense	(709,773)	(715,420)	–	(1,425,193)
Profit from operations	88,975	474,149	11,121	574,245
Zakat	(610)	(401)	(26)	(1,037)
Taxation	(17,853)	(113,597)	(2,379)	(133,829)
Profit after taxation and zakat by segment	70,512	360,151	8,716	439,379
Segment assets	21,756,280	20,976,831	239,262	42,972,373
Segment liabilities	19,744,510	17,265,444	12,825	37,022,779
Other information:				
Capital expenditure	5,377	3,395	–	8,772
Depreciation and amortisation	1,556	983	–	2,539

46 ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE

ASSETS AND LIABILITIES

	The Company, Cagamas, CMGP and CSME* RM'000	CMBS RM'000	CSRP RM'000	Consolidation adjustments RM'000	Total RM'000
2017					
ASSETS					
Cash and short-term funds	535,040	230,791	27,553	–	793,384
Deposits and placements with financial institutions	1,701	218,965	21,221	–	241,887
Derivative financial instruments	466,339	–	–	–	466,339
AFS investment securities	2,471,430	1,023,397	202,730	–	3,697,557
Amounts due from counterparties	19,870,378	–	–	–	19,870,378
Islamic financing assets	5,544,378	–	–	–	5,544,378
Mortgage assets:					
- Conventional	5,848,119	1,829,935	–	–	7,678,054
- Islamic	6,300,576	2,164,791	–	–	8,465,367
Hire purchase assets:					
- Islamic	953	–	–	–	953
Amount due from a related company	1,032	–	–	(1,032)	–
Other assets	7,921	10,635	–	–	18,556
Property and equipment	4,437	–	–	–	4,437
Intangible assets	16,354	–	–	–	16,354
Deferred taxation	10,431	–	4,070	–	14,501
Tax recoverable	25	–	–	–	25
Investment in subsidiaries	4,181,628	–	–	(4,181,628)	–
TOTAL ASSETS	45,260,742	5,478,514	255,574	(4,182,660)	46,812,170

* Total assets of CMGP and CSME comprise cash of RM14,000 and RM2 respectively

46 ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE (CONTINUED)

ASSETS AND LIABILITIES (CONTINUED)

	The Company, Cagamas, CMGP and CSME* RM'000	CMBS RM'000	CSRP RM'000	Consolidation adjustments RM'000	Total RM'000
2017					
LIABILITIES					
Unsecured bearer bonds and notes	25,764,940	–	–	–	25,764,940
Sukuk	11,597,878	–	–	–	11,597,878
Derivative financial instruments	216,871	–	–	–	216,871
RMBS	–	1,270,318	–	–	1,270,318
IRMBS	–	1,261,353	–	–	1,261,353
Deferred guarantee fee income	–	–	5,080	–	5,080
Deferred Wakalah fee income	–	–	11,848	–	11,848
Deferred taxation	2,469	536,767	51	–	539,287
Provision for taxation	12,430	5,178	1,002	–	18,610
Other liabilities	60,794	52	1,087	(686)	61,247
Amount due to a related company	–	379	–	(379)	–
TOTAL LIABILITIES	37,655,382	3,074,047	19,068	(1,065)	40,747,432

* Total liabilities of CMGP and CSME were RM4,000 and nil respectively

46 ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE (CONTINUED)

ASSETS AND LIABILITIES (CONTINUED)

	The Company, Cagamas and CMGP and CSME* RM'000	CMBS RM'000	CSRP RM'000	Consolidation adjustments RM'000	Total RM'000
2016					
ASSETS					
Cash and short-term funds	409,986	325,378	38,885	–	774,249
Deposits and placements with financial institutions	1,446	1,127,902	30,912	–	1,160,260
Derivative financial instruments	887,826	–	–	–	887,826
AFS investment securities	1,650,518	1,123,700	166,498	–	2,940,716
Amounts due from counterparties	14,296,165	–	–	–	14,296,165
Islamic financing assets	5,307,689	–	–	–	5,307,689
Mortgage assets:					
– Conventional	6,238,337	2,255,678	–	–	8,494,015
– Islamic	6,662,093	2,396,575	–	–	9,058,668
Hire purchase assets:					
– Islamic	1,924	–	–	–	1,924
Amount due from a related company	436	–	–	(436)	–
Other assets	9,153	10,793	–	–	19,946
Property and equipment	2,892	–	–	–	2,892
Intangible assets	14,032	–	–	–	14,032
Deferred taxation	8,365	–	2,860	2,740	13,965
Tax recoverable	26	–	–	–	26
Investment in subsidiaries	4,181,628	–	–	(4,181,628)	–
TOTAL ASSETS	39,672,516	7,240,026	239,155	(4,179,324)	42,972,373

* Total assets of CMGP and CSME were RM21,000 and RM2 respectively

46 ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE (CONTINUED)

ASSETS AND LIABILITIES (CONTINUED)

	The Company, Cagamas, CMGP and CSME* RM'000	CMBS RM'000	CSRP RM'000	Consolidation adjustments RM'000	Total RM'000
2016					
LIABILITIES					
Unsecured bearer bonds and notes	20,946,586	–	–	–	20,946,586
Sukuk	11,214,913	–	–	–	11,214,913
Derivative financial instruments	33,825	–	–	–	33,825
RMBS	–	2,143,775	–	–	2,143,775
IRMBS	–	2,075,803	–	–	2,075,803
Deferred guarantee fee income	–	–	3,850	–	3,850
Deferred Wakalah fee income	–	–	7,648	–	7,648
Deferred taxation	3	509,611	–	2,739	512,353
Provision for taxation	15,668	5,259	1,010	–	21,937
Other liabilities	61,801	60	228	–	62,089
Amount due to a related company	–	436	–	(436)	–
TOTAL LIABILITIES	32,272,796	4,734,944	12,736	2,303	37,022,779

* Total liabilities of CMGP and CSME were RM4,000 and nil respectively

46 ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE (CONTINUED)

INCOME STATEMENT

	The Company, Cagamas, CMGP and CSME* RM'000	CMBS RM'000	CSRP RM'000	Consolidation adjustments RM'000	Total RM'000
2017					
Interest income	1,202,722	222,422	8,901	–	1,434,045
Interest expense	(896,484)	(99,806)	–	–	(996,290)
Income from Islamic operations	133,634	96,111	3,466	–	233,211
Non-interest (expense)/income	(31,785)	–	1,331	(35,418)	(65,872)
	408,087	218,727	13,698	(35,418)	605,094
Administration and general expenses	(29,140)	(5,165)	(762)	5,451	(29,616)
Personnel costs	(27,302)	–	–	–	(27,302)
OPERATING PROFIT	351,645	213,562	12,936	(29,967)	548,176
Allowance for impairment losses	(719)	791	–	–	72
PROFIT BEFORE TAXATION AND ZAKAT	350,926	214,353	12,936	(29,967)	548,248
Zakat	(927)	–	(46)	–	(973)
Taxation	(78,171)	(51,440)	(3,368)	–	(132,979)
PROFIT FOR THE FINANCIAL YEAR	271,828	162,913	9,522	(29,967)	414,296

* CMGP and CSME's loss for the financial year were RM7,000 and nil respectively

46 ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE (CONTINUED)

INCOME STATEMENT (CONTINUED)

	The Company, Cagamas, CMGP and CSME* RM'000	CMBS RM'000	CSRP RM'000	Consolidation adjustments RM'000	Total RM'000
2016					
Interest income	1,051,691	240,204	8,608	–	1,300,503
Interest expense	(782,993)	(109,697)	–	–	(892,690)
Income from Islamic operations	139,314	103,845	1,817	–	244,976
Non-interest (expense)/income	(3,470)	–	810	(34,829)	(37,489)
	404,542	234,352	11,235	(34,829)	615,300
Administration and general expenses	(24,928)	(5,700)	(108)	4,829	(25,907)
Personnel costs	(25,488)	–	–	–	(25,488)
OPERATING PROFIT	354,124	228,652	11,127	(30,000)	563,905
Allowance for impairment losses	8,062	2,278	–	–	10,340
PROFIT BEFORE TAXATION AND ZAKAT	362,188	230,930	11,127	(30,000)	574,245
Zakat	(1,011)	–	(26)	–	(1,037)
Taxation	(76,027)	(55,423)	(2,379)	–	(133,829)
PROFIT FOR THE FINANCIAL YEAR	285,150	175,507	8,722	(30,000)	439,379

* CMGP and CSME's loss for the financial year were RM6,000 and RM36 respectively

47 CAPITAL ADEQUACY

The Group's and the Company's objectives when managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are:

(a) To align with industry best practices and benchmark set by the regulators;

(b) To safeguard the Group's and the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefit to other stakeholders; and

(c) To maintain a strong capital base to support the development of its business.

The Group and the Company are not subject to the BNM Guidelines on the Capital Adequacy Guidelines. However, disclosure of the capital adequacy ratios is made on a voluntary basis for information purposes.

Capital adequacy and the use of regulatory capital are monitored by the Group's and the Company's management, employing techniques based on the guidelines developed by the Basel Committee and as implemented by BNM, for supervisory purposes.

The regulatory capital comprise of two tiers:

(a) Tier I capital: share capital (net of any book values of treasury shares) and other reserves which comprise retained profits and reserves created by appropriations of retained profits; and

(b) Tier II capital: comprise collective impairment allowances on mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets.

Common equity Tier I ("CET I") and Tier I capital ratios refer to the ratio of total Tier I capital to risk-weighted assets. Risk-weighted capital ratio ("RWCR") is the ratio of total capital to risk-weighted assets.

47.1 Regulatory capital

	Group	
	2017	**2016**
	%	**%**
Before deducting interim dividends*		
CET I capital ratio	**33.6**	36.3
Tier I capital ratio	**33.6**	36.3
Total capital ratio	**35.1**	38.0
After deducting interim dividends*		
CET I capital ratio	**33.5**	36.2
Tier I capital ratio	**33.5**	36.2
Total capital ratio	**34.9**	37.9

* refers to proposed interim dividends which are to be declared after the financial year

47 CAPITAL ADEQUACY (CONTINUED)

47.1 Regulatory capital (Continued)

	Group	
	2017	2016
	RM'000	RM'000
Components of CET I, Tier I and Tier II capital:		
CET I/Tier I capital		
Issued share capital	**150,000**	150,000
Retained profits	**5,943,163**	5,824,769
	6,093,163	5,974,769
AFS reserve	**67**	(12,810)
Less: Collective allowance*	**(161,032)**	(173,564)
Total CET I/Tier I capital	**5,932,198**	5,788,395
Tier II capital		
Allowance for impairment losses	**93,970**	95,661
Add: Collective allowance*	**161,032**	173,564
Total Tier II capital	**255,002**	269,225
Total capital	**6,187,200**	6,057,620
The breakdown of risk-weighted assets by each major risk category is as follows:		
Credit risk	**16,444,081**	14,699,651
Operational risk	**1,195,160**	1,240,090
Total risk-weighted assets	**17,639,241**	15,939,741

* comprise qualifying regulatory reserves for non-impaired financing of Cagamas

47 CAPITAL ADEQUACY (CONTINUED)

47.2 Proforma regulatory capital excluding CMBS

	Group	
	2017** %	2016** %
Before deducting interim dividends*		
CET I capital ratio	**24.0**	26.0
Tier I capital ratio	**24.0**	26.0
Total capital ratio	**25.8**	27.8
After deducting interim dividends*		
CET I capital ratio	**23.8**	25.8
Tier I capital ratio	**23.8**	25.8
Total capital ratio	**25.6**	27.6

	RM'000	RM'000
Components of CET I, Tier I and Tier II capital:		
CET I/Tier I capital		
Issued share capital	**150,000**	150,000
Retained profits	**3,539,367**	3,317,984
	3,689,367	3,467,984
AFS reserve	**(724)**	(11,108)
Less: Collective allowance***	**(161,032)**	(173,564)
Total CET I/Tier I capital	**3,527,611**	3,283,312
Tier II capital		
Allowance for impairment losses	**68,232**	68,734
Add: Collective allowance***	**161,032**	173,564
Total Tier II capital	**229,264**	242,298
Total capital	**3,756,875**	3,525,610
The breakdown of risk-weighted assets by each major risk category is as follows:		
Credit risk	**14,902,242**	12,782,996
Operational risk	**776,922**	794,718
Total risk-weighted assets	**15,679,164**	13,577,714

* refers to proposed interim dividends which to be declared after the financial year
** excludes CMBS's risk-weighted assets and total capital
*** comprise qualifying regulatory reserves for non-impaired financing of Cagamas

48 ISLAMIC OPERATIONS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
ASSETS			
Cash and short-term funds	(a)	**167,281**	138,064
Deposits and placements with financial institutions	(b)	**133,429**	649,810
AFS investment securities	(c)	**897,606**	391,261
Derivative financial instruments		**–**	23,025
Financing assets	(d)	**5,544,378**	5,307,689
Mortgage assets	(e)	**8,462,093**	9,054,299
Hire purchase assets	(f)	**457**	1,584
Deferred taxation		**3,873**	1,825
Other assets and prepayments		**289,393**	289,365
TOTAL ASSETS		**15,498,510**	15,856,922
LIABILITIES			
Sukuk	(g)	**11,597,878**	11,214,913
IRMBS	(h)	**1,261,353**	2,075,803
Deferred taxation		**257,617**	236,937
Deferred Wakalah fees		**11,847**	7,648
Provision for taxation		**3,404**	3,889
Other liabilities	(i)	**18,807**	132,815
TOTAL LIABILITIES		**13,150,906**	13,672,005
ISLAMIC OPERATIONS' FUNDS		**2,347,604**	2,184,917
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		**15,498,510**	15,856,922

48 ISLAMIC OPERATIONS (CONTINUED)

CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
Total income attributable		**812,184**	881,654
Income attributable to the Sukuk holders	(j)	**(573,007)**	(625,760)
Non-profit expense		**(5,966)**	(10,918)
Total income attributable	(k)	**233,211**	244,976
Administration and general expenses		**(10,196)**	(5,671)
(Allowance)/write-back for impairment losses		**(1,089)**	8,215
PROFIT BEFORE TAXATION AND ZAKAT		**221,926**	247,520
Zakat		**(973)**	(1,037)
Taxation		**(53,927)**	(61,593)
PROFIT FOR THE FINANCIAL YEAR		**167,026**	184,890

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	2017 RM'000	2016 RM'000
Profit for the financial year	**167,026**	184,890
Other comprehensive loss:		
Items that may be subsequently reclassified to profit or loss		
AFS investment securities		
– Net gain/(loss) on fair value changes before taxation	**1,370**	(846)
– Deferred taxation	**(329)**	203
Cash flow hedge		
– Net loss on cash flow hedge before taxation	**(6,788)**	(6,788)
– Deferred taxation	**1,408**	1,618
Other comprehensive loss for the financial year, net of taxation	**(4,339)**	(5,813)
Total comprehensive income for the financial year	**162,687**	179,077

48 ISLAMIC OPERATIONS (CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN ISLAMIC OPERATIONS' FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Allocated capital funds RM'000	AFS reserve RM'000	Cashflow hedge reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	Total RM'000
Group						
Balance as at 1 January 2017	**294,159**	**(702)**	**1,326**	**89,137**	**1,800,997**	**2,184,917**
Profit for the financial year	**–**	**–**	**–**	**–**	**167,026**	**167,026**
Other comprehensive income/(loss)	**–**	**1,041**	**(5,380)**	**–**	**–**	**(4,339)**
Total comprehensive income/(loss) for the financial year	**–**	**1,041**	**(5,380)**	**–**	**167,026**	**162,687**
Transfer to retained profits during the financial year	**–**	**–**	**–**	**(5,482)**	**5,482**	**–**
Balance as at 31 December 2017	**294,159**	**339**	**(4,054)**	**83,655**	**1,973,505**	**2,347,604**
Balance as at 1 January 2016	294,159	(59)	6,496	95,598	1,609,646	2,005,840
Profit for the financial year	–	–	–	–	184,890	184,890
Other comprehensive loss	–	(643)	(5,170)	–	–	(5,813)
Total comprehensive (loss)/income for the financial year	–	(643)	(5,170)	–	184,890	179,077
Transfer to retained profits during the financial year	–	–	–	(6,461)	6,461	–
Balance as at 31 December 2016	294,159	(702)	1,326	89,137	1,800,997	2,184,917

48 ISLAMIC OPERATIONS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	2017 RM'000	2016 RM'000
OPERATING ACTIVITIES		
Profit for the financial year	**167,026**	184,890
Adjustments for investment items and items not involving the movement of cash and cash equivalents:		
Amortisation of premium less accretion of discount on:		
– AFS investment securities	**(4,739)**	(3,152)
– Mortgage assets	**(154,899)**	(166,170)
– Hire purchase assets	**(17)**	(77)
– Sukuk	**651**	626
Income from:		
– AFS investment securities	**(8,949)**	(2,044)
– Islamic operations	**(618,428)**	(683,258)
Profit attributable to Sukuk holders	**579,424**	615,570
Loss on disposal of AFS investment securities	**(49)**	–
Allowance/(write-back) for impairment losses on mortgage assets and hire purchase assets	**1,089**	(8,215)
Reclassification adjustment on fair value gains on CCS, transfer from equity	**(12,434)**	(21,937)
Unrealised loss on foreign exchange	**27,716**	8,721
Wakalah fee income	**(2,945)**	(1,499)
Write-off of mortgage assets	**17**	–
Amortisation of premium less accretion of discount on AFS investment securities	**62**	(420)
Taxation	**53,927**	61,593
Zakat	**973**	1,037
Operating profit/(loss) before working capital changes	**28,425**	(14,335)
(Increase)/decrease in financing assets	**(230,874)**	275,436
Decrease in mortgage assets	**726,630**	719,885
Decrease in hire purchase assets	**1,205**	2,559
Increase in other assets and prepayments	**(26)**	(29)
Decrease in IRMBS	**(810,000)**	–
Decrease/(increase) in Sukuk	**382,462**	(846,079)
Increase in deferred financing fee	**(174)**	–
Decrease/(increase) in derivatives	**11,270**	(12,327)
(Decrease)/increase in other liabilities	**(110,032)**	32,280
Cash (utilised in)/generated from operating activities	**(1,114)**	157,390
Profit received from assets	**635,053**	693,445
Wakalah fee received	**7,145**	2,716
Profit paid to Sukuk holders	**(583,655)**	(498,981)
Payment of:		
Taxation	**(48,926)**	(36,279)
Zakat	**(1,037)**	(2,777)
Net cash generated from operations	**7,466**	315,514

48 ISLAMIC OPERATIONS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

	Note	2017 RM'000	2016 RM'000
INVESTING ACTIVITIES			
Purchase of AFS investment securities		**(1,829,287)**	(116,951)
Sale of AFS investment securities		**1,331,946**	234,872
Income received from AFS investment securities		**2,712**	2,056
Net cash (utilised in)/generated from investing activities		**(494,629)**	119,977
Net (decrease)/increase in cash and cash equivalents		**(487,163)**	435,491
Cash and cash equivalents as at 1 January		**787,873**	352,383
Cash and cash equivalents as at 31 December		**300,710**	787,874
Analysis of cash and cash equivalents:			
Cash and short-term funds	(a)	**167,281**	138,064
Deposits and placements with financial institutions	(b)	**133,429**	649,810
		300,710	787,874

	Group 2017 RM'000	Group 2016 RM'000
(a) Cash and short-term funds		
Cash and bank balances with bank and other financial institutions	**319**	134
Mudharabah money at call and deposit placements maturing within one month	**166,962**	137,930
	167,281	138,064
(b) Deposits and placements with financial institutions		
Licensed banks	**133,429**	649,810

48 ISLAMIC OPERATIONS (CONTINUED)

	Group	
	2017 RM'000	**2016 RM'000**
(c) AFS investment securities		
At fair value:		
Government investment issues	**122,012**	101,419
Quasi government Sukuk	**546,313**	116,497
Sukuk	**229,281**	173,345
	897,606	391,261
The maturity structure of AFS investment securities are as follows:		
Maturing within one year	**453,297**	91,180
One to three years	**282,364**	209,324
Three to five years	**96,649**	15,269
More than five years	**65,296**	75,488
	897,606	391,261
(d) Financing assets		
House financing	**5,434,616**	4,225,536
Hire purchase financing	**–**	382,819
Personal financing	**109,762**	699,334
	5,544,378	5,307,689
The maturity structure of financing assets are as follows:		
Maturing within one year	**1,708,434**	3,001,966
One to three years	**2,594,787**	1,387,816
Three to five years	**1,241,157**	500,003
More than five years	**–**	417,904
	5,544,378	5,307,689

48 ISLAMIC OPERATIONS (CONTINUED)

	Group	
	2017 RM'000	**2016 RM'000**
(e) Mortgage assets		
PWOR	**8,462,093**	9,054,299
The maturity structure of mortgage assets are as follows:		
Maturing within one year	**1,025,878**	1,050,804
One to three years	**1,496,829**	1,499,114
Three to five years	**1,473,059**	1,497,842
More than five years	**5,521,364**	6,215,978
	9,517,130	10,263,738
Less:		
Unaccreted discount	**(1,013,003)**	(1,167,903)
Allowance for impairment losses	**(42,034)**	(41,536)
	8,462,093	9,054,299
(f) Hire purchase		
PWOR	**457**	1,584
The maturity structure of hire purchase assets are as follows:		
Maturing within one year	**474**	1,523
One to three years	**45**	153
	519	1,676
Less:		
Unaccreted discount	**–**	(17)
Allowance for impairment losses	**(62)**	(75)
	457	1,584

48 ISLAMIC OPERATIONS (CONTINUED)

	Group	
	2017 RM'000	**2016 RM'000**
(g) Sukuk		
Medium-term notes	**11,597,878**	11,214,913
The maturity structure of Sukuk are as follows:		
Maturing within one year	**2,011,864**	3,242,363
One to three years	**3,456,014**	2,352,550
Three to five years	**2,395,000**	1,425,000
More than five years	**3,735,000**	4,195,000
	11,597,878	11,214,913
(h) IRMBS		
IRMBS	**1,261,353**	2,075,803
The maturity structure of the IRMBS are as follows:		
Maturing within one year	**6,353**	820,803
One to three years	**645,000**	245,000
Three to five years	**320,000**	400,000
More than five years	**290,000**	610,000
	1,261,353	2,075,803
(i) Other liabilities		
Zakat	**927**	1,011
Other payables	**17,880**	131,804
	18,807	132,815

48 ISLAMIC OPERATIONS (CONTINUED)

	Group	
	2017 RM'000	**2016 RM'000**
(j) Income attributable to the Sukuk holders		
Mortgage assets	**367,044**	404,069
Financing assets	**205,712**	221,413
Hire purchase assets	**251**	278
	573,007	625,760
Income attributable to the Sukuk holders analysed by concept:		
Bai Al-Dayn	**497,498**	625,760
Musyarakah	**75,509**	–
	573,007	625,760

	Group	
	2017 RM'000	**2016 RM'000**
(k) Total net income		
Income from:		
Mortgage assets	**170,035**	180,500
Hire purchase assets	**(213)**	(300)
Financing assets	**18,196**	28,329
AFS investment securities	**25,944**	20,789
Deposits and placements with financial institutions	**22,269**	25,077
Wakalah guarantee fee	**2,946**	1,499
Non-profit expense	**(5,966)**	(10,918)
	233,211	244,976
Total net income analysed by concept are as follows:		
Bai Al-Dayn	**182,051**	198,341
Mudharabah	**6,452**	8,986
Bai Bithaman Ajil	**2,708**	3,693
Murabahah	**31,301**	26,180
Musyarakah	**5,571**	5,615
Wadiah Yad Dhamanah	**29**	32
Wakalah	**4,539**	1,499
Ijarah	**560**	479
Bai Al-Tawarruq	**–**	151
	233,211	244,976

48 ISLAMIC OPERATIONS (CONTINUED)

(l) Capital adequacy

	Group 2017 %	Group 2016 %
Regulatory capital		
Before deducting interim dividend*		
CET I capital ratio	**42.9**	38.0
Tier I capital ratio	**42.9**	38.0
Total capital ratio	**45.3**	40.4
After deducting interim dividend*		
CET I capital ratio	**42.9**	38.0
Tier I capital ratio	**42.9**	38.0
Total capital ratio	**45.3**	40.4

Components of CET I, Tier I and Tier II capital:

CET I/Tier I capital:	RM'000	RM'000
Allocated capital funds	**294,159**	294,159
Other reserves	**2,057,160**	1,890,134
	2,351,319	2,184,293
AFS reserve	**339**	(702)
Less: Collective allowance**	**(83,655)**	(89,137)
Total CET I/Tier I capital	**2,268,003**	2,094,454
Tier II capital:		
Allowance for impairment losses	**43,165**	42,680
Add: Collective allowance**	**83,655**	89,137
Total Tier II capital	**126,820**	131,817
Total capital	**2,394,823**	2,226,271

* refers to proposed interim dividends which to be declared after the financial year

** comprise qualifying regulatory reserves for non-impaired financing of Cagamas

48 ISLAMIC OPERATIONS (CONTINUED)

(l) Capital adequacy (Continued)

Regulatory capital (Continued)

The breakdown of risk-weighted assets by each major risk category is as follows:

	Group	
	2017 RM'000	**2016 RM'000**
Credit risk	**4,845,364**	5,041,657
Operational risk	**445,079**	464,835
Total risk-weighted assets	**5,290,443**	5,506,492

Proforma regulatory excluding CMBS

	Group	
	2017 ** **%**	**2016** ** **%**
Before deducting interim dividend*		
CET I capital ratio	**25.9**	23.1
Tier I capital ratio	**25.9**	23.1
Total capital ratio	**28.5**	25.8
After deducting interim dividend*		
CET I capital ratio	**25.9**	23.1
Tier I capital ratio	**25.9**	23.1
Total capital ratio	**28.5**	25.8

CET I/Tier I capital:	**RM'000**	**RM'000**
Allocated capital funds	**294,159**	294,159
Other reserves	**911,685**	814,926
	1,205,844	1,019,085
AFS reserve	**138**	(95)
Less: Collective allowance***	**(83,655)**	(89,137)
Total CET I/Tier I capital	**1,122,327**	1,019,853
Tier II capital:		
Allowance for impairment losses	**30,259**	30,361
Add: Collective allowance***	**83,655**	89,137
Total Tier II capital	**113,914**	119,498
Total capital	**1,236,241**	1,139,451

* refers to proposed interim dividends which to be declared after the financial year
** excludes CMBS's risk-weighted assets and total capital
*** comprise qualifying regulatory reserves for non-impaired financing of Cagamas

48 ISLAMIC OPERATIONS (CONTINUED)

(l) Capital adequacy (Continued)

Proforma regulatory capital excluding CMBS (Continued)

The breakdown of risk-weighted assets by each major risk category is as follows:

	Group	
	2017** **RM'000**	**2016**** **RM'000**
Credit risk	**4,068,142**	4,142,567
Operational risk	**267,200**	279,380
Total risk-weighted assets	**4,335,342**	4,421,947

*** excludes CMBS's risk-weighted assets and total capital.*

The Group and the Company are not subject to the BNM Guidelines on the Capital Adequacy Guidelines. However, disclosure of the capital adequacy ratios is made on a voluntary basis for information purposes.

(m) Shariah advisor

The Group consults an independent Shariah advisor on an ad-hoc basis for all its Islamic products to ensure compliance with Islamic principles. In addition, the Group is required to obtain the approval of the Shariah Council of the regulatory bodies for its Islamic products.

49 SIGNIFICANT EVENTS DURING THE YEAR

The significant events during the financial year are as follows:

(i) On 15 September 2017, the Board of Directors of CMBS, had approved the issuance of 1 RPS of RM1 as disclosed in Note 25 to the financial statements. The RPS has been allotted and issued by CMBS on 15 December 2017 to facilitate the distribution of discretionary bonus fee to LPPSA upon full settlement of RMBS for pool 2004-1. CMBS had entered into a Tripartite Trust Deed Agreement with CSRP (as Trustee for LPPSA) and LPPSA on 19 October 2017 prior to the issuance of the RPS.

On 6 December 2017, the Board of Directors of CMBS, had approved dividend of RM265,901,637.49 on the RPS issued for the financial year ended 31 December 2017. The dividend has been paid in cash and in specie as disclosed in Note 36 to the financial statements.

(ii) During the year, a subsidiary of the Company, Cagamas, has entered into a shared service arrangement with another subsidiary company, CSRP. Under this arrangement, Cagamas sets out the scope of services performed for CSRP in the normal course of business.

50 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with the resolution of the Board of Directors.

Statement By Directors

pursuant to Section 251(2) of the Companies Act, 2016

We, Nik Mohd Hasyudeen Bin Yusoff and Tan Sri Dato' Sri Tay Ah Lek, the two Directors of Cagamas Holdings Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 90 to 189 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2017 and of the results and cash flows of the Group and the Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution.

NIK MOHD HASYUDEEN BIN YUSOFF
CHAIRMAN

TAN SRI DATO' SRI TAY AH LEK
DIRECTOR

Statutory Declaration

pursuant to Section 251(1) of the Companies Act, 2016

I, Datuk Chung Chee Leong, the Director primarily responsible for the financial management of Cagamas Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 90 to 189 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

DATUK CHUNG CHEE LEONG

Subscribed and solemnly declared by the abovenamed Datuk Chung Chee Leong at Kuala Lumpur in Malaysia on 21 March 2018.

Before me,
COMMISSIONER FOR OATHS

PESURUHJAYA SUMPAH
No: W 681
RAJEEV SAIGAL A/L
RAMLABAYA SAIGAL
MALAYSIA

NO. A-31-11, LEVEL 31,
TOWER A, MENARA UOA BANGSAR,
NO. 5, JALAN BANGSAR UTAMA 1,
BANGSAR, 59000 KUALA LUMPUR.

Independent Auditors' Report

to the members of Cagamas Holdings Berhad
(Incorporated in Malaysia) (Company No. 762047-P)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Cagamas Holdings Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statement of financial position as at 31 December 2017 of the Group and of the Company, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 90 to 189.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises Directors' Report, which we obtained prior to the date of the auditors' report, and the 2017 Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Group and the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of the financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and of the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

(d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (Continued)

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
CHARTERED ACCOUNTANTS

ONG CHING CHUAN
02907/11/2019 J
CHARTERED ACCOUNTANT

Kuala Lumpur
21 March 2018