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 2018.

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 these 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 20 to the financial statements.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit for the financial year	416,466	30,116

DIVIDEND

The dividends paid by the Group and Company since 31 December 2017 were as follows:

	Group RM'000	Company RM'000
In respect of the financial year ended 31 December 2018,		
On ordinary shares:		
– a first interim dividend of 15 sen per share on 150,000,000 shares, paid on 30 April 2018	22,500	22,500
– a second interim dividend of 5 sen per share on 150,000,000 shares, paid on 1 October 2018	7,500	7,500
	30,000	30,000
On redeemable preference shares:		
- a dividend paid in cash on 18 September 2018	80,946	–
	80,946	–

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 2019, 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 3 September 2018 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 2018.

SHARE CAPITAL

There are no changes in the issued ordinary share or preference shares of the Group and 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 $_gA_2$/Stable/gP1, $_{sea}$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 long term 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 $_gA_2$(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 39 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 39 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 (Chairman)
Tan Sri Dato' Sri Tay Ah Lek
Datuk George Ratilal
Datuk Abdul Farid bin Alias
Dato' Lee Kok Kwan
Puan Wan Hanisah binti Wan Ibrahim
Dato' Bakarudin bin Ishak (appointed on 1 January 2019)
Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (appointed on 1 January 2019)
Datuk Shaik Abdul Rasheed bin Abdul Ghaffour (resigned on 1 January 2019)
Datuk Azizan bin Haji Abd Rahman (resigned on 1 January 2019)

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.

In accordance with Articles 19.13 and 19.14 of the Company's Constitution, Tan Sri Dato' Sri Tay Ah Lek and Datuk Abdul Farid bin Alias retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS (CONTINUED)

In accordance with Article 19.10 of the Company's Constitution, Dato' Bakarudin bin Ishak and Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani who vacate their office 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 35 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 realise 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 other than disclosed in Note 40.

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 the 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 2018

In financial year 2018, the Group's profit for the year has improved to RM416.5 million as compared to RM414.3 million in 2017. Cagamas remains the key operating subsidiary which contributes 58.5% of total group profit for the financial year. The Group's adoption of the local risk rating scale to arrive at its risk-weighted asset value has resulted in an improvement to its RWCR, which will comfortably support the Group's growing PWR purchases and varied business plans. The Group RWCR has improved to 45.0% as compared to 35.1% in 2017.

Cagamas recorded RM12.1 billion of purchases of loans and financing under PWR scheme (2017: RM14.0 billion) and no purchase of loans under PWOR scheme (2017: 100.0 million). Cagamas' net outstanding loans and financing rose by 10.9% to RM41.7 billion (2017: RM37.6 billion). As at the end of 2018, residential mortgage dominated Cagamas' portfolio at 98.7% (2017: 98.8%), followed by hire purchase loans and financing at 1.2% (2017: 0.8%) and personal loans and financing at 0.1% (2017: 0.4%). Cagamas's Islamic asset portfolio against conventional assets increased to a ratio of 38:62 (2017: 32:68), while PWR and PWOR loans and financing portfolios were at 71% and 29% respectively (2017: 65% and 35% respectively). The gross impaired loans and financing under the PWOR scheme stood at 0.85% (2017: 0.72%), while net impaired loans and financing was at 0.43% (2017: 0.23%).

BUSINESS REVIEW FOR THE FINANCIAL YEAR 2018 (CONTINUED)

CMBS contributed profit for the year of RM163.9 million in term of PBT, compared with RM162.9 million in 2017. There were no redemption of RMBS/IRMBS during the financial year and the remaining RM2.5 billion worth of RMBS/IRMBS are expected to mature in stages and fully redeemed by August 2027.

As at 31 December 2018, the total guarantee exposures that have been provided by CSRP to the SRP and SPB schemes was RM361.1 million compared with RM201.4 million in 2017. 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 RM3.7 billion enabling 17,743 individuals/households to own their first house.

SUBSIDIARIES

Details of subsidiaries are set out in Note 20 to the financial statements.

AUDITORS REMUNERATION

Details of the auditors' remuneration are set out in Note 36 of the financial statements.

AUDITORS

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

This report was approved by the Board of Directors on 18 March 2019.

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 2018

	Note	Group		Company	
		2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
ASSETS					
Cash and short-term funds	6	**468,160**	793,384	**540**	435
Deposits and placements with financial institutions	7	**652,339**	241,887	**1,698**	1,701
Derivative financial instruments	8	**362,078**	466,339	**–**	–
AFS investment securities	9	**–**	3,697,557	**–**	–
Financial asset at fair value through other comprehensive income (FVOCI)	10	**3,867,328**	–	**–**	–
Amount due from counterparties	11	**20,404,924**	19,870,378	**–**	–
Islamic financing assets	12	**10,029,953**	5,544,378	**–**	–
Mortgage assets					
– Conventional	13	**6,939,324**	7,678,054	**–**	–
– Islamic	14	**7,857,947**	8,465,367	**–**	–
Hire purchase assets					
– Islamic	15	**781**	953	**–**	–
Other assets	16	**6,589**	18,556	**–**	–
Property and equipment	17	**4,694**	4,437	**–**	–
Intangible assets	18	**22,849**	16,354	**–**	–
Deferred taxation	19	**43,659**	14,501	**–**	–
Tax recoverable		**40,851**	25	**40**	25
Investment in subsidiaries	20	**–**	–	**4,181,628**	4,181,628
Investment in structured entity	21	**–***	–*	**–***	–*
TOTAL ASSETS		**50,701,476**	46,812,170	**4,183,906**	4,183,789
LIABILITIES					
Unsecured bearer bonds and notes	22	**26,082,391**	25,764,940	**–**	–
Sukuk	23	**14,808,472**	11,597,878	**–**	–
Derivative financial instruments	9	**154,614**	216,871	**–**	–
RMBS	24	**1,270,318**	1,270,318	**–**	–
IRMBS	25	**1,261,353**	1,261,353	**–**	–
Deferred guarantee fee income		**7,393**	5,080	**–**	–
Deferred Wakalah fee income		**21,776**	11,848	**–**	–
Deferred taxation	19	**622,800**	539,287	**4**	3
Provision for taxation		**9,943**	18,610	**–**	–
Other liabilities	26	**89,668**	61,247	**–**	–
TOTAL LIABILITIES		**44,328,728**	40,747,432	**4**	3

* denotes RM2

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

Statements of Financial Position *(Continued)*

as at 31 December 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Share capital	27	**150,000**	150,000	**150,000**	150,000
Reserves	28	**6,222,748**	5,914,738	**4,033,902**	4,033,786
SHAREHOLDERS' FUNDS		**6,372,748**	6,064,738	**4,183,902**	4,183,786
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**50,701,476**	46,812,170	**4,183,906**	4,183,789
NET TANGIBLE ASSETS PER SHARE (RM)	29	**42.33**	40.32	**27.89**	27.89

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

Income Statements

for the financial year ended 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Interest income	30	**1,538,435**	1,434,045	**152**	159
Interest expense	31	**(1,097,446)**	(996,290)	**–**	–
Income from Islamic operations	50	**218,833**	233,211	**–**	–
Non-interest (expense)/income	32	**(66,657)**	(65,872)	**30,000**	30,000
		593,165	605,094	**30,152**	30,159
Administration and general expenses		**(29,312)**	(29,616)	**–**	(1)
Personnel costs	33	**(26,526)**	(27,302)	**–**	–
OPERATING PROFIT		**537,327**	548,176	**30,152**	30,158
Write-back of impairment losses	34	**6,653**	72	**–**	–
PROFIT BEFORE TAXATION AND ZAKAT	36	**543,980**	548,248	**30,152**	30,158
Zakat		**(1,662)**	(973)	**–**	–
Taxation	37	**(125,852)**	(132,979)	**(36)**	(38)
PROFIT FOR THE FINANCIAL YEAR*		**416,466**	414,296	**30,116**	30,120
EARNINGS PER SHARE (SEN)	29	**277.64**	276.20	**20.08**	20.08
DIVIDEND PER SHARE (SEN)	38	**20.00**	20.00	**20.00**	20.00

* Profit for the financial year of the Group includes profit from CMBS of RM163,870,000 (2017: RM162,913,000) 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 2018

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Profit for the financial year	**416,466**	414,296	**30,116**	30,120
Other comprehensive income:				
Items that may be subsequently reclassified to income statement				
AFS investment securities				
– Net gain on fair value changes before taxation	**–**	16,773	**–**	–
– Deferred taxation	**–**	(4,030)	**–**	–
Financial asset at FVOCI				
– Net gain on fair value changes before taxation	**6,627**	–	**–**	–
– Deferred taxation	**(1,589)**	–	**–**	–
Cash flow hedge				
– Net loss on cash flow hedge before taxation	**(9,675)**	(20,753)	**–**	–
– Deferred taxation	**2,321**	4,760	**–**	–
Other comprehensive loss for the financial year, net of taxation	**(2,316)**	(3,250)	**–**	–
Total comprehensive income for the financial year	**414,150**	411,046	**30,116**	30,120

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

Statements of Changes in Equity

for the financial year ended 31 December 2018

Group	Note	Issued ordinary shares of RM1 each: Share capital RM'000	Non-distributable: Share premium relief reserves RM'000	Reverse acquisition relief reserves RM'000	AFS reserves RM'000	Financial asset at FVOCI reserves RM'000	Cash flow hedge reserves RM'000	Regulatory reserves RM'000	Distributable: Retained profits RM'000	Other reserves* RM'000	Total equity RM'000
Balance as at 1 January 2018		150,000	3,831,628	(3,831,628)	(67)	-	(28,358)	161,032	3,378,335	2,403,796	6,064,738
Effect of adopting MFRS 9 on 1 January 2018	3	-	-	-	67	(67)	-	-	5,703	(897)	4,806
As restated		150,000	3,831,628	(3,831,628)	-	(67)	(28,358)	161,032	3,384,038	2,402,899	6,069,544
Profit for the financial year		-	-	-	-	-	-	-	252,596	163,870	416,466
Other comprehensive income/(loss)		-	-	-	-	5,037	(7,353)	-	-	-	(2,316)
Total comprehensive income/(loss) for the financial year		-	-	-	-	5,037	(7,353)	-	252,596	163,870	414,150
Transfer to retained profits		-	-	-	-	-	-	(16,560)	16,560	-	-
Discretionary dividend on RPS paid during the year	38	-	-	-	-	-	-	-	-	(80,946)	(80,946)
First interim dividends on ordinary shares in respect of the financial year ended 31 December 2018	38	-	-	-	-	-	-	-	(22,500)	-	(22,500)
Second interim dividends on ordinary shares in respect of the financial year ended 31 December 2018	38	-	-	-	-	-	-	-	(7,500)	-	(7,500)
Balance as at 31 December 2018	27 & 28	150,000	3,831,628	(3,831,628)	-	4,970	(35,711)	144,472	3,623,194	2,485,823	6,372,748

* 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 in trust by CSRP.

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

Group	Note	Issued ordinary shares of RM1 each	Non-distributable					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 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	38	-	-	-	-	-	-	-	(265,902)	(265,902)
First interim dividends on ordinary shares in respect of the financial year ended 31 December 2017	38	-	-	-	-	-	-	(22,500)	-	(22,500)
Second interim dividends on ordinary shares in respect of the financial year ended 31 December 2017	38	-	-	-	-	-	-	(7,500)	-	(7,500)
Balance as at 31 December 2017	27 & 28	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 in trust by CSRP.

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

Statement of Changes in Equity *(Continued)*

for the financial year ended 31 December 2018

		Issued ordinary shares of RM1 each	Non–distributable	Distributable	
Company	**Note**	**Share capital RM'000**	**Share premium relief reserve RM'000**	**Retained profits RM'000**	**Total equity RM'000**
Balance as at 1 January 2018		**150,000**	**3,831,628**	**202,158**	**4,183,786**
Profit for the financial year		**–**	**–**	**30,116**	**30,116**
Total comprehensive income for the financial year		**–**	**–**	**30,116**	**30,116**
First interim dividends on ordinary shares in respect of financial year ended 31 December 2018	38	**–**	**–**	**(22,500)**	**(22,500)**
Second interim dividends on ordinary shares in respect of financial year ended 31 December 2018	38	**–**	**–**	**(7,500)**	**(7,500)**
Balance as at 31 December 2018	27 & 28	**150,000**	**3,831,628**	**202,274**	**4,183,902**
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	38	–	–	(22,500)	(22,500)
Second interim dividends on ordinary shares in respect of financial year ended 31 December 2017	38	–	–	(7,500)	(7,500)
Balance as at 31 December 2017	27 & 28	150,000	3,831,628	202,158	4,183,786

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

Statements of Cash Flows

for the financial year ended 31 December 2018

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
OPERATING ACTIVITIES				
Profit for the financial year	**416,466**	414,296	**30,116**	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)	**–**	–
– Financial asset at FVOCI	**(20,322)**	–	**–**	–
– Sukuk	**656**	–	**–**	–
Accretion of discount on:				
Mortgage assets:				
– Conventional	**(188,454)**	(200,264)	**–**	–
– Islamic	**(134,343)**	(154,899)	**–**	–
Hire purchase assets:				
– Islamic	**(1)**	(16)	**–**	–
Interest income	**(1,326,691)**	(1,184,518)	**–**	–
Income from Islamic operations	**(723,316)**	(627,377)	**–**	–
Interest expense	**1,097,446**	831,351	**–**	–
Profit attributable to Sukuk holders	**660,590**	579,206	**–**	–
Guarantee fee income	**(5,719)**	(4,277)	**–**	–
Depreciation of property and equipment	**1,421**	1,057	**–**	–
Amortisation of intangible assets	**2,897**	1,416	**–**	–
Gain on disposal of:				
– Property and equipment	**(70)**	–	**–**	–
– AFS investment securities	**–**	(2,756)	**–**	–
– Financial asset at FVOCI	**(3,553)**	–	**–**	–
Write-back for impairment losses on mortgage assets and hire purchase assets and Islamic mortgage assets and Islamic hire purchase assets	**(6,653)**	(72)	**–**	–
Reclassification adjustment on fair value gains on CCS, transfer from equity	**33,592**	(236,599)	**–**	–
Unrealised (gain)/loss on foreign exchange	**(33,157)**	236,856	**–**	–
Taxation	**125,562**	132,979	**36**	38
Zakat	**1,662**	973	**–**	–
Operating (loss)/profit before working capital changes	**(101,987)**	(221,930)	**30,152**	30,158

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

Statements of Cash Flows *(Continued)*

for the financial year ended 31 December 2018

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Increase in amount due from counterparties	**(509,808)**	(5,531,394)	**–**	–
Increase in Islamic financing assets	**(4,460,445)**	(230,874)	**–**	–
Decrease in mortgage assets:				
– Conventional	**926,295**	867,250	**–**	–
– Islamic	**737,008**	727,411	**–**	–
Decrease in mortgage assets repurchase:				
– Conventional	**427**	1,967	**–**	–
(Increase)/decrease in hire purchase assets				
– Conventional	**–**	1,078	**–**	–
– Islamic	**(93)**	–	**–**	–
(Increase)/decrease in other assets	**(279)**	36	**–**	–
Increase in unsecured bearer bonds and notes	**153,642**	4,779,759	**–**	–
Increase in Sukuk	**3,190,337**	381,422	**–**	–
Increase in deferred financing fees	**(1,382)**	(4,213)	**–**	–
Decrease in:				
– RMBS	**–**	(870,000)	**–**	–
– IRMBS	**–**	(810,000)	**–**	–
Decrease in derivatives	**112,405**	648,664	**–**	–
Decrease in amount due to related company	**71**	(58)	**–**	–
Increase in other liabilities	**26,138**	476	**–**	–
Cash generated from/(utilised in) operations	**72,329**	(260,406)	**30,152**	30,158
Profit received from Islamic assets	**746,437**	650,774	**–**	–
Fee income received	**17,960**	9,706	**–**	–
Interest received	**1,455,406**	1,296,330	**–**	–
Interest paid	**(1,164,414)**	(961,161)	**–**	–
Interest paid to RMBS holders	**(67,245)**	(103,263)	**–**	–
Profit paid to IRMBS holders	**(56,859)**	(79,958)	**–**	–
Profit paid on derivatives	**(48,849)**	(19,007)	**–**	–
Profit attributable to Sukuk holders	**(584,100)**	(502,630)	**–**	–
Payment of:				
– Zakat	**(973)**	(1,037)	**–**	–
– Taxation	**(121,774)**	(109,176)	**(50)**	(37)
Net cash generated from/(utilised in) operating activities	**247,918**	(79,828)	**30,102**	30,121

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

	Note	Group		Company	
		2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
INVESTING ACTIVITIES					
Purchase of:					
– AFS investment securities		**–**	(4,095,926)	**–**	–
– Financial asset at FVOCI		**(2,894,568)**	–	**–**	–
– Property and equipment		**(1,679)**	(2,602)	**–**	–
– Intangible assets		**(9,392)**	(3,738)	**–**	–
Net proceed from sale/redemption of:					
– AFS investment securities		**–**	3,374,045	**–**	–
– Financial asset at FVOCI		**2,757,644**	–	**–**	–
Income received from:					
– AFS investment securities		**–**	72,457	**–**	–
– Financial asset at FVOCI		**82,860**	–	**–**	–
– Sukuk		**13,321**	5,827	**–**	–
Decrease in amount due to related company		**70**	–	**–**	–
Net cash utilised in investing activities		**(51,744)**	(649,937)	**–**	–
FINANCING ACTIVITIES					
Dividends paid to shareholders		**(30,000)**	(30,000)	**(30,000)**	(30,000)
Dividends paid to RPS holder		**(80,946)**	(139,472)	**–**	–
Net cash utilised in financing activities		**(110,946)**	(169,472)	**(30,000)**	(30,000)
Net increase/(decrease) in cash and cash equivalents		**85,228**	(899,237)	**102**	121
Cash and cash equivalents as at 1 January		**1,035,271**	1,934,508	**2,136**	2,015
Cash and cash equivalents as at 31 December		**1,120,499**	1,035,271	**2,238**	2,136
Analysis of cash and cash equivalents as at 31 December:					
Cash and short-term funds	6	**468,160**	793,384	**540**	435
Deposits and placements with financial institutions	7	**652,339**	241,887	**1,698**	1,701
		1,120,499	1,035,271	**2,238**	2,136

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 these 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 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 4 to the financial statements.

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

The Group and Company has applied the following standards and amendments for the first time for the financial year beginning on 1 January 2018:

- MFRS 9 'Financial Instruments'
- MFRS 15 'Revenue from Contracts with Customers'
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

The Group and Company has adopted MFRS 9 and MFRS 15 for the first time in the 2018 financial statements, which resulted to the change in policies as set out in Note 2.8 and Note 2.9 to the financial statements. The detailed impact of change in accounting policies are set out in Note 3.

The Group and Company has applied MFRS 9 retrospectively with the date of initial application of 1 January 2018. In accordance with the transitional provisions provided in MFRS 9, comparative information for 2017 was not restated and continued to be reported under the previous accounting policies governed under MFRS 139. The cumulative effects of initially applying MFRS 9 were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018.

Other than that, the adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods.

(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 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.

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

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):

- If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

  IC Interpretation 23 will be applied retrospectively.

- Annual Improvements to MFRSs 2015 – 2017 Cycle:

  Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in income statement, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in income statement when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

At 1 January 2019, the Group and the Company expect to adopt the standard using a modified retrospective approach where the cumulative effect of initially applying the standard shall recognise an adjustment to the opening balance of retained profits and the comparatives shall not be restated. The implementation is expected to increase the "right-of-use" of the underlying assets and increase financial liabilities with no effect on net assets or retained profits.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Economic entities in the Group (continued)

Subsidiaries (continued)

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 MFRS 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Economic entities in the Group (continued)

Subsidiaries (continued)

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 9 either in income statement 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.

2.3 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 existing 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.6 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 describe the Group's accounting policy on impairment of assets and Note 4 details out the critical accounting estimates and assumptions.

2.7 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)

2.7 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 2.10.1 to the financial statements.

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

2.8 Financial assets

2.8.1 Accounting policies applied from 1 January 2018

(a) Classification

From 1 January 2018, The Group classifies its financial assets in the following measurement categories;

- Those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- Those to be measured at amortised cost

(b) Recognition and de-recognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVTPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ('SPPI').

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets (continued)

2.8.1 Accounting policies applied from 1 January 2018 (continued)

(c) Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group and the Company's business model for managing the asset and the cash flow characteristics of the asset. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

There are three measurement categories into which the Group classifies its debt instruments:

(i) Amortised cost

Cash and short term funds, amount due from counterparties, Islamic financing debt, mortgage assets/Islamic mortgage assets and Islamic hire purchase assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Interest income from these financial assets is included in the income statement using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in income statement and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the income statement.

(ii) Fair value through other comprehensive income ('FVOCI')

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to income statement and recognised in other gains/(losses).

Interest income from these financial assets is included in interest income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the income statement.

(iii) Fair value through profit or loss ("FVTPL")

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Group and Company may also irrevocably designate financial asset at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes is recognised in income statement and presented net within other gains/(losses) in the period which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in income statement as other income when the Group's right to receive payments is established.

Changes in the fair value of financial asset at FVTPL are recognised in other gains/(losses) in the statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of assets

2.9.1 Financial assets

(a) Accounting policies applied from 1 January 2018

The Group assesses on a forward looking basis the expected credit loss ('ECL') associated with its debt instruments carried at amortised cost and at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Any loss arising from the significant increase in credit risk will result to the carrying amount of the asset being reduced and the amount of the loss is recognised in the income statement.

The Group has five of its financial assets that are subject to the ECL model:

- Amount due from counterparties and Islamic financing assets;
- Mortgage assets/Islamic mortgage assets and Islamic hire purchase assets;
- Financial asset at FVOCI;
- Money market instruments; and
- Financial guarantee contracts

While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Group expects to receive, over the remaining life of the financial instrument.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

<u>Approach</u>

At each reporting date, the Group and Company measures ECL through loss allowance at an amount equal to 12 month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required. Note 3 sets out the measurement details of ECL.

<u>Significant increase in credit risk</u>

The Group and Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of assets (continued)

2.9.1 Financial assets (continued)

(a) Accounting policies applied from 1 January 2018 (continued)

Significant increase in credit risk (continued)

The following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparties's ability to meet its obligations
- actual or expected significant changes in the operating results of the counterparties
- significant increases in credit risk on other financial instruments of the same counterparty
- significant changes in the expected performance and behaviour of the counterparty, including changes in the payment status of counterparty in the group and changes in the operating results of the counterparty.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

Definition of default and credit financial assets

The Group and Company defines a financial instrument as default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:
The Group and Company defines a financial instrument as default, when the counterparty fails to make contractual payment within 90 days of when they fall due.

Qualitative criteria:
The debtor meets unlikeliness to pay criteria, which indicates the debtor is in significant financial difficulty. The Group and Company considers the following instances:

- the debtor is in breach of financial covenants
- concessions have been made by the lender relating to the debtor's financial difficulty
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation
- the debtor is insolvent

Financial instruments that are credit-impaired are assessed on individual basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of assets (continued)

2.9.1 Financial assets (continued)

(a) Accounting policies applied from 1 January 2018 (continued)

Definition of default and credit financial assets (continued)

For the purpose of ECL measurement, mortgage assets/Islamic mortgage assets and Islamic hire purchase assets have been grouped based on shared credit risk characteristics and the days past due. Mortgage assets/Islamic mortgage assets and Islamic hire purchase assets have substantially the same risk characteristics and the Group and Company has therefore concluded that these assets to be assessed on a collective basis. Financial asset at FVOCI and financial instruments that are credit impaired are assessed on individual basis.

Amount due from counterparties, Islamic financing assets and debt instruments which are in default or credit impaired are assessed individually.

(b) Accounting policies applied until 31 December 2017

(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)

2.9.2 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 Write-off

The Group writes off financial assets, in whole or in part, when it has exhausted all practicable recovery efforts and has concluded that there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. Impairment losses are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off will result in impairment gains which is credited against the same line item.

2.11 Income recognition on mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets 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 the effective yield method.

Guarantee fee and Wakalah fee income on Skim Rumah Pertamaku are recognised as income based on reducing balance method (2017: straight line basis) when the fees are received in full.

Guarantee fee and Wakalah fee income on Skim Perumahan Belia are recognised as income based on straight line method when the fees are received in full annually.

2.12 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2.17 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 8 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Derivative financial instruments and hedge accounting (continued)

The Group's documents at the inception of the hedge relationship, the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

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".

Amounts accumulated in equity are reclassified to income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in income statement within the line item "Non-interest income" at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the accounting of any cumulative deferred gain or loss and deferred cost of hedging included in equity depends on the nature of the underlying hedged transaction. For cash flow hedge which resulted in the recognition of a non-financial asset, the cumulative amount in equity shall be included in the initial cost of the asset. For other cash flow hedges, the cumulative amount in equity is reclassified to income statement in the same period that the hedged cash flows affect income statement. When hedged future cash flows or forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred cost of hedging that was reported in equity is immediately reclassified to income statement under "Non-interest income".

2.18 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Zakat

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% (2017: 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.

2.20 Employee benefits

(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.

2.21 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.

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.

The computer software and computer software licenses are amortised over their estimated useful lives of three to ten years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Intangible assets (continued)

(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 2.9.2 to the financial statements.

2.22 RMBS and IRMBS

RMBS and IRMBS were issued by the Group to fund the purchases of 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.

2.23 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 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.

2.25 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Financial guarantee contracts

Financial guarantee contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

(a) Accounting policies applied from 1 January 2018

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under MFRS 9 'Financial instruments' and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of MFRS 15 'Revenue from Contracts with Customers', where appropriate.

(b) Accounting policies applied until 31 December 2017

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with MFRS 137 'Provisions, contingent liabilities and contingent assets' and the amount initially recognised less cumulative amortisation, where appropriate.

2.28 AFS investment securities

<u>Accounting policies applied until 31 December 2017</u>

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 2.9.1 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.

3 CHANGES IN ACCOUNTING POLICIES

i. Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9

Group Assets	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 Dec 2017 RM'000	Re-classification RM'000	Re-measurement RM'000	MFRS 9 carrying amount as at 1 Jan 2018 RM'000	Retained profits impact as at 1 Jan 2018 RM'000
Cash and short-term funds	Receivables	Amortised cost	793,384	-	-	793,384	-
Deposits and placement with financial institutions	Receivables	Amortised cost	241,887	-	-	241,887	-
Financial asset at fair value through profit or loss (FVTPL)	AFS	FVTPL	-	101,292	-	101,292	-
Derivative financial instruments	FVTPL	FVTPL	466,339	-	-	466,339	-
Available-for-sale investment securities	AFS	Not Applicable	3,697,557	(3,697,557)	-	-	-
Financial asset at fair value through other comprehensive income (FVOCI)	Not Applicable	FVOCI	-	3,596,265	-	3,596,265	-
Amount due from counterparties	Loans and receivables	Amortised cost	19,870,378	-	(41)	19,870,337	(41)
Islamic financing assets	Loans and receivables	Amortised cost	5,544,378	-	(222)	5,544,156	(222)
Mortgage assets:							
– Conventional	Loans and receivables	Amortised cost	7,678,054	-	6,125	7,684,179	6,125
– Islamic	Loans and receivables	Amortised cost	8,465,367	-	1,631	8,466,998	1,631
Hire purchase assets Islamic	Loans and receivables	Amortised cost	953	-	41	994	41
Deferred taxation	Not Applicable	Not Applicable	14,501	-	(1,800)	12,700	(1,800)
Total change to financial asset balances, reclassification and remeasurement at 1 Jan 2018			46,772,798	-	5,734	46,778,531	5,734

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

i. Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9 (continued)

Group	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount as at 31 Dec 2017 RM'000	Re-classification RM'000	Re-measurement RM'000	MFRS 9 carrying amount as at 1 Jan 2018 RM'000	Retained profits impact as at 1 Jan 2018 RM'000
Liabilities							
Deferred taxation	Not Applicable	Not Applicable	539,287	-	(283)	539,004	(283)
Deferred guarantee fee income	Amortised cost	Amortised cost	5,080	-	-	5,080	-
Deferred Wakalah fee income	Amortised cost	Amortised cost	11,848	-	-	11,848	-
Other liabilities – expected credit loss on guarantee exposure	Not Applicable	Amortised cost	-	-	527	527	527
Other liabilities – expected credit loss on Wakalah exposure	Not Applicable	Amortised cost	-	-	683	683	683
Total change to financial liabilities balances, reclassification and remeasurement at 1 Jan 2018			556,215	-	927	557,142	927
Reserves							
AFS reserves	AFS	Not Applicable	(67)	67	-	-	-
Financial asset at FVOCI reserves	Not Applicable	FVOCI	-	(67)	-	(67)	-
Total change to reserve balances, reclassification and remeasurement at 1 Jan 2018			(67)	-	-	(67)	-
Company							
Assets							
Cash and short-term funds	Receivables	Amortised cost	435	-	-	435	-
Deposits and placement with financial institutions	Receivables	Amortised cost	1,701	-	-	1,701	-
Total change to financial asset balances, reclassification and remeasurement at 1 Jan 2018			2,136	-	-	2,136	-

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

ii. Reconciliation impairment allowance balances from MFRS 139 to MFRS 9

The following table reconciles the prior year's closing impairment allowance for the Group measured in accordance with the MFRS 139 incurred loss model to the new impairment allowance measured in accordance with the MFRS 9 expected loss model at 1 January 2018:

Group	Impairment allowance under MFRS 139 RM'000	Re-classification RM'000	Re-measurement RM'000	Impairment allowance under MFRS 9 RM'000
Amortised cost (MFRS 139)/Amortised cost (MFRS 9)				
Amount due from counterparties Islamic financial assets	-	-	41	41
Mortgage assets:	-	-	222	222
– Conventional	50,803	-	(6,125)	44,678
– Islamic	43,103	-	(1,631)	41,472
Hire purchase assets:				
– Conventional	2	-	-	2
– Islamic	62	-	(41)	21
Other liabilities – expected credit loss on guarantee exposure	-	-	527	527
Other liabilities – expected credit loss on Wakalah exposure	-	-	683	683
Total	93,970	-	(6,324)	87,646

4 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.

(a) Fair value of derivatives, AFS investment securities and financial asset at FVOCI

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, unquoted AFS investment securities and unquoted financial asset at FVOCI 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 9, 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.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(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 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.

(e) Impairment of guarantee exposure and Wakalah exposure

The Group makes allowances for losses on guarantee exposure and Wakalah exposure based on assessment of recoverability. Whilst management is guided by the requirement of MFRS 9, management makes judgement on the future and other key factors in respect of the recovery of 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.

5 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.

5.1 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 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.

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.2 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 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, Islamic mortgage assets, hire purchase assets and Islamic hire purchase assets.

5.3 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 does 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 hedging 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 simulations 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.

5.4 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.

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.5 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.

6 CASH AND SHORT-TERM FUNDS

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Cash and balance with banks and other financial institutions	**70,376**	118,380	**14**	13
Money at call and deposits and placements maturing within one month	**397,727**	565,192	**526**	422
Mudharabah money at call and deposits and placements maturing within one month	**57**	109,812	**–**	–
	468,160	793,384	**540**	435

7 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed banks	**652,339**	241,887	**1,698**	1,701

8 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 receives 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 is protected from adverse movements in interest/profit 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/profit from and pay fixed rate interest/profit 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.

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 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 9 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 2018 was RM207.5 million (2017: RM249.5 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.

8 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

	Group					
	2018			2017		
	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	**2,660,000**	**856**	**(9,792)**	2,585,000	2,344	(11,386)
Three to five years	**655,000**	**-**	**(17,471)**	545,000	-	(7,904)
More than five years	**160,000**	**5,139**	**-**	270,000	7,100	(12,147)
	3,475,000	**5,995**	**(27,263)**	3,400,000	9,444	(31,437)
CCS/ICCS						
Maturing within one year	**1,725,000**	**319,325**	**-**	2,630,696	157,081	(47,104)
One to three years	**2,673,652**	**36,758**	**(127,351)**	3,268,500	299,814	(138,330)
	4,398,652	**356,083**	**(127,351)**	5,899,196	456,895	(185,434)
	7,873,652	**362,078**	**(154,614)**	9,299,196	466,339	(216,871)

9 AFS INVESTMENT SECURITIES

	Group	
	2018 RM'000	2017 RM'000
At fair value:		
Malaysian government securities	–	163,228
Corporate bonds	–	576,301
Government investment issues	–	804,393
Sukuk	–	1,023,481
Quasi government bonds	–	35,735
Quasi government Sukuk	–	993,127
Unit Trust	–	101,292
	–	3,697,557

The maturity structure of AFS investment securities are as follows:

Maturing within one year	–	993,020
One to three years	–	895,084
Three to five years	–	722,469
More than five years	–	1,086,984
	–	3,697,557

The AFS investment securities category was removed upon adoption of MFRS 9. The financial effects of adoption of MFRS 9 are discussed in Note 3.

10 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

	Group	
	2018 RM'000	2017 RM'000
At fair value:		
Malaysian government securities	**179,675**	–
Corporate bonds	**771,992**	–
Government investment issues	**845,704**	–
Sukuk	**1,058,061**	–
Quasi government bonds	**577,360**	–
Quasi government Sukuk	**434,536**	–
	3,867,328	–

10 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI) (CONTINUED)

	Group	
	2018 RM'000	**2017 RM'000**
The maturity structure of financial asset at FVOCI are as follows:		
Maturing within one year	**849,272**	–
One to three years	**777,335**	–
Three to five years	**1,111,643**	–
More than five years	**1,129,078**	–
	3,867,328	–

The financial asset at FVOCI category was introduced upon the adoption of MFRS 9 on 1 January 2018. Comparative figures are not restated in line with the transition requirement under MFRS 9. The financial effects of adoption of MFRS 9 are discussed in Note 3.

For financial asset at FVOCI, all balances are within stage 1 allocation (12-months ECL) as at 31 December 2018. There is no ECL made for this category of asset as at 31 December 2018 as the impact is immaterial.

11 AMOUNT DUE FROM COUNTERPARTIES

	Group	
	2018 RM'000	**2017 RM'000**
Relating to:		
Mortgage loans	**19,875,905**	19,545,875
Hire purchase and leasing debts	**529,019**	286,304
Personal loans	**–**	38,199
	20,404,924	19,870,378
The maturity structure of amount due from counterparties are as follows:		
Maturing within one year	**6,004,319**	6,285,506
One to three years	**8,420,633**	7,604,833
Three to five years	**5,345,007**	5,345,007
More than five years	**635,032**	635,032
	20,404,991	19,870,378
Less:		
Allowance for impairment losses	**(67)**	-
	20,404,924	19,870,378

11 AMOUNT DUE FROM COUNTERPARTIES (CONTINUED)

As at 31 December 2018, the gross carrying value of amount due from counterparties and the impairment allowance are within stage 1 allocation (12-months ECL). Movement in impairment allowances that reflects the ECL model on impairment are as follows:

	Group	
	Stage 1 RM'000	**Total RM'000**
At 1 January		
– as previously stated		**–**
– effect of adoption of MFRS 9		**41**
As restated	**41**	**41**
Allowance during the year on new assets purchased	**28**	**28**
Loans derecognised during the period due to maturity of assets	**(38)**	**(38)**
Allowance during the year due to changes in credit risk	**36**	**36**
At 31 December	**67**	**67**

12 ISLAMIC FINANCING ASSETS

	Group	
	2018 RM'000	**2017 RM'000**
Relating to:		
Islamic house financing	**10,011,058**	5,434,616
Islamic personal financing	**18,895**	109,762
	10,029,953	5,544,378

The maturity structure of Islamic financing assets are as follows:

Maturing within one year	**1,835,052**	1,730,200
One to three years	**4,269,044**	2,574,231
Three to five years	**3,926,484**	1,239,947
	10,030,580	5,544,378
Less:		
Allowance for impairment losses	**(627)**	–
	10,029,953	5,544,378

12 ISLAMIC FINANCING ASSETS (CONTINUED)

As at 31 December 2018, the gross carrying value of Islamic financing assets and the impairment allowance are within stage 1 allocation (12-months ECL). Movement in impairment allowances that reflects the ECL model on impairment are as follows:

	Group and Company	
	Stage 1 RM'000	**Total RM'000**
At 1 January		
– as previously stated		**–**
– effect of adoption of MFRS 9		**222**
As restated	**222**	**222**
Allowance during the year on new assets purchased	**275**	**275**
Allowance during the year due to changes in credit risk	**130**	**130**
At 31 December	**627**	**627**

13 MORTGAGE ASSETS – CONVENTIONAL

	Group	
	2018 RM'000	**2017 RM'000**
Purchase without recourse ("PWOR")	**6,939,324**	7,678,054

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

	2018 RM'000	**2017 RM'000**
Maturing within one year	**1,223,236**	1,293,609
One to three years	**1,652,012**	1,757,839
Three to five years	**1,415,695**	1,580,064
More than five years	**3,604,386**	4,200,356
	7,895,329	8,831,868
Less:		
Unaccreted discount	**(914,556)**	(1,103,011)
Allowance for impairment losses	**(41,449)**	(50,803)
	6,939,324	7,678,054

13 MORTGAGE ASSETS – CONVENTIONAL (CONTINUED)

As at 31 December 2018, the gross carrying value of mortgage assets by stage of allocation upon adoption of MFRS 9 effective 1 January 2018 are as follows;

	Gross carrying value 2018 RM'000	Impairment allowance 2018 RM'000
By stage of allocation:		
Stage 1 (12-months ECL; non credit impaired)	7,783,682	9,755
Stage 2 (Lifetime ECL; non credit impaired)	17,731	1,713
Stage 3 (Lifetime ECL; credit impaired)	93,916	29,981
At 31 December	7,895,329	41,449
Impairment allowance over gross carrying value (%)		0.53

The impairment allowance by stage allocation and movement in impairment allowances that reflects the ECL model on impairment are as follows:

	Group			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
At 1 January				
– as previously stated				50,803
– effect of adoption of MFRS 9				(6,125)
As restated	10,520	4,419	29,739	44,678
Transfer between stages:				
– Transfer to 12 months ECL (Stage 1)	14,521	(1,624)	(12,897)	–
– Transfer to ECL non credit impaired (Stage 2)	(3,130)	4,372	(1,242)	–
– Transfer to ECL credit impaired (Stage 3)	(10,670)	(101)	10,771	–
Total transfer between stages	721	2,647	(3,368)	–
Loans derecognised during the period (other than write-offs)	(243)	(443)	(3,833)	(4,519)
(Reversal)/allowance during the year due to changes in credit risk	(1,243)	(4,910)	7,676	1,523
Amount written off	–	–	(233)	(233)
At 31 December	9,755	1,713	29,981	41,449

14 MORTGAGE ASSETS - ISLAMIC

	Group	
	2018 RM'000	**2017 RM'000**
PWOR	**7,857,947**	8,465,367

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

	2018 RM'000	**2017 RM'000**
Maturing within one year	**1,017,812**	1,026,874
One to three years	**1,631,109**	1,498,548
Three to five years	**1,434,957**	1,473,894
More than five years	**4,688,826**	5,522,157
	8,772,704	9,521,473
Less:		
Unaccreted discount	**(878,661)**	(1,013,003)
Allowance for impairment losses	**(36,096)**	(43,103)
	7,857,947	8,465,367

As at 31 December 2018, the gross carrying value of Islamic mortgage assets by stage of allocation upon adoption of MFRS 9 effective 1 January 2018 are as follows:

	Gross carrying value 2018 RM'000	**Impairment allowance 2018 RM'000**
By stage of allocation:		
Stage 1 (12-months ECL; non credit impaired)	**8,685,531**	**10,946**
Stage 2 (Lifetime ECL; non credit impaired)	**12,076**	**1,119**
Stage 3 (Lifetime ECL; credit impaired)	**75,098**	**24,031**
At 31 December	**8,772,705**	**36,096**
Impairment allowance over gross carrying value (%)		**0.41**

14 MORTGAGE ASSETS – ISLAMIC (CONTINUED)

The impairment allowance by stage allocation and movement in impairment allowances that reflects the ECL model on impairment are as follows:

	Group			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
At 1 January				
– as previously stated				**43,103**
– effect of adoption of MFRS 9				**(1,631)**
As restated	**11,611**	**5,175**	**24,686**	**41,472**
Transfer between stages:				
–Transfer to 12-months ECL (Stage 1)	**11,458**	**(1,050)**	**(10,408)**	**–**
–Transfer to ECL non credit impaired (Stage 2)	**(4,103)**	**5,231**	**(1,128)**	**–**
–Transfer to ECL credit impaired (Stage 3)	**(9,735)**	**(54)**	**9,789**	**–**
Total transfer between stages	**(2,380)**	**4,127**	**(1,747)**	**–**
Financing derecognised during the period (other than write-offs)	**(214)**	**(368)**	**(2,837)**	**(3,419)**
Allowance/(reversal) during the year due to changes in credit risk	**1,929**	**(7,815)**	**3,964**	**(1,922)**
Amount written off	**–**	**–**	**(35)**	**(35)**
At 31 December	**10,946**	**1,119**	**24,031**	**36,096**

15 HIRE PURCHASE ASSETS - ISLAMIC

	Group	
	2018 RM'000	**2017 RM'000**
PWOR	**781**	953

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

Maturing within one year	**795**	970
One to three years	**–**	45
	795	1,015
Less:		
Unaccreted discount	**1**	–
Allowance for impairment losses	**(15)**	(62)
	781	953

As at 31 December 2018, the gross carrying value of Islamic hire purchase assets by stage of allocation upon adoption of MFRS 9 effective 1 January 2018 are as follows:

	Gross carrying value 2018 RM'000	**Impairment allowance 2018 RM'000**
By stage of allocation:		
Stage 1 (12-months ECL; non credit impaired)	**740**	**–**
Stage 2 (Lifetime ECL; non credit impaired)	**–**	**–**
Stage 3 (Lifetime ECL; credit impaired)	**55**	**15**
At 31 December	**795**	**15**
Impairment allowance over gross carrying value (%)		**1.89**

15 HIRE PURCHASE ASSETS - ISLAMIC (CONTINUED)

The impairment allowance by stage allocation and movement in impairment allowances that reflects the ECL model on impairment are as follows:

	Group			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
At 1 January				
– as previously stated				**62**
– effect of adoption of MFRS 9				**(41)**
As restated	**1**	**–**	**20**	**21**
Financing derecognised during the period (other than write-offs)	**(1)**	**–**	**(5)**	**(6)**
At 31 December	**–**	**–**	**15**	**15**

16 OTHER ASSETS

	Group	
	2018 RM'000	**2017 RM'000**
Compensation receivable from originator on mortgage assets	**763**	11,837
Staff loans and financing	**3,269**	3,974
Deposits	**906**	908
Prepayments	**1,500**	1,509
Other receivables	**151**	328
	6,589	18,556

17 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 2018	**7,945**	**4,649**	**627**	**13,221**
Additions	**1,336**	**10**	**333**	**1,679**
Disposals	**(39)**	**–**	**(367)**	**(406)**
As at 31 December 2018	**9,242**	**4,659**	**593**	**14,494**
Accumulated depreciation				
As at 1 January 2018	**(4,160)**	**(3,999)**	**(625)**	**(8,784)**
Charge for the financial year	**(953)**	**(453)**	**(15)**	**(1,421)**
Disposals	**39**	**–**	**366**	**405**
As at 31 December 2018	**(5,074)**	**(4,452)**	**(274)**	**(9,800)**
Net book value as at 31 December 2018	**4,168**	**207**	**319**	**4,694**
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	(536)	(454)	(66)	(1,056)
Disposals	269	4	–	27
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

18 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 2018	**16,712**	**12,082**	**5,832**	**10,414**	**45,040**
Additions	**–**	**46**	**9,065**	**281**	**9,392**
Transfer during the year	**–**	**–**	**10,414**	**(10,414)**	**–**
As at 31 December 2018	**16,712**	**12,128**	**25,311**	**281**	**54,432**
Accumulated amortisation					
As at 1 January 2018	**(12,809)**	**(12,065)**	**(3,812)**	**–**	**(28,686)**
Charge for the financial year	**(565)**	**(39)**	**(2,293)**	**–**	**(2,897)**
As at 31 December 2018	**(13,374)**	**(12,104)**	**(6,105)**	**–**	**(31,583)**
Net book value as at 31 December 2018	**3,338**	**24**	**19,206**	**281**	**22,849**
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

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 2 to 9 years (2017: 3 to 10 years).

19 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	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Deferred tax assets (before offsetting)	**43,659**	14,501	**–**	–
Deferred tax liabilities (before offsetting)	**(622,800)**	(539,287)	**(4)**	(3)
Deferred tax liabilities	**(579,141)**	(524,786)	**(4)**	(3)

The movements of deferred tax are as follows:

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
As at 1 January	**(524,786)**	(498,388)	**(3)**	(3)
Effects of adopting MFRS 9	**(1,517)**	–	**–**	–
As restated	**(526,303)**	(498,388)	**(3)**	(3)
Credit to income statement (Note 37)	**(53,570)**	(27,128)	**–**	–
Credit to other comprehensive income/(loss)	**732**	730	**(1)**	–
As at 31 December	**(579,141)**	(524,786)	**(4)**	(3)

19 DEFERRED TAXATION (CONTINUED)

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

Group **2018**	**As at 1 January RM'000**	**Effects of adopting MFRS 9 RM'000**	**As restated RM'000**	**Recognised to income statement RM'000**	**Recognised to reserves RM'000**	**As at 31 December RM'000**
Deferred tax assets						
Net unrealised losses on revaluation of derivatives financial instrument under cash flow hedge accounting	9,807	–	9,807	–	5,260	15,067
Provisions	308	–	308	1,013	–	1,321
Revaluation reserves of:						
– AFS investment securities	322	(322)	–	–	–	–
– Financial asset at FVOCI	–	322	322	410	(323)	409
Temporary difference relating to interest/profit receivables on deposit and placements	–	–	–	10	–	10
Temporary difference relating to ECL	–	(1,061)	(1,061)	20,909	–	19,848
Temporary difference relating to guarantee/Wakalah fees	4,064	–	4,064	2,940	–	7,004
	14,501	(1,061)	13,440	25,282	4,937	43,659
Deferred tax liabilities						
Net unrealised gains on revaluation of derivatives financial instrument under cash flow hedge accounting	(851)	–	(851)	–	(2,939)	(3,790)
Revaluation reserves of:						
– AFS investment securities	(308)	308	–	–	–	–
– Financial asset at FVOCI	–	(308)	(308)	–	(1,266)	(1,574)
Accelerated depreciation	(1,275)	–	(1,275)	(973)	–	(2,248)
Temporary difference relating to interest/profit receivables on deposit and placements	(850)	–	(850)	(407)	–	(1,257)
Unaccreted discount on mortgage assets	(536,003)	–	(536,003)	(77,472)	–	(613,475)
Temporary difference relating to ECL	–	(456)	(456)	–	–	(456)
	(539,287)	(456)	(539,743)	(78,852)	(4,205)	(622,800)

19 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				
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
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)

19 DEFERRED TAXATION (CONTINUED)

	Company			
	As at 1 January RM'000	**Recognised to income statement RM'000**	**Recognised to reserves RM'000**	**As at 31 December RM'000**
2018				
Deferred tax liabilities				
Temporary difference relating to interest receivables on deposits and placements	**(3)**	**(1)**	**–**	**(4)**
2017				
Deferred tax liabilities				
Temporary difference relating to interest receivables on deposits and placements	(3)	–	–	(3)

20 INVESTMENT IN SUBSIDIARIES

	Company	
	2018 RM'000	**2017 RM'000**
Unquoted shares at cost	**4,181,628**	4,181,628

20 INVESTMENT IN SUBSIDIARIES (CONTINUED)

The subsidiaries of the Company are as follows:

			Direct and indirect interest in equity held by the Company	
Name	**Principal activities**	**Country of incorporation**	**2018 %**	**2017 %**
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 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

21 INVESTMENT IN STRUCTURED ENTITY

	Company	
	2018 RM'000	**2017 RM'000**
Unquoted shares at cost	**–***	–*

* denotes RM2

The structured entity of the Company is as follows:

		Direct and indirect interest in equity held by the Company	
Name	**Principal activities**	**2018 %**	**2017 %**
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.

22 UNSECURED BEARER BONDS AND NOTES

		Group			
		2018		2017	
	Year of maturity	Amount outstanding RM'000	Effective interest rate %	Amount outstanding RM'000	Effective interest rate %
(a) Floating rate	2018	**–**	**–**	300,000	3.480
	2019	**450,000**	**3.480 – 3.840**	–	–
Add:					
Interest payable		**1,391**		1,001	
		451,391		301,001	
(b) Conventional commercial papers	2018	**–**	**–**	700,000	3.560
	2019	**750,000**	**3.560 – 3.800**	–	–
Add:					
Interest payable		**2,929**		1,297	
		752,929		701,297	
(c) Medium-term notes	2018	**–**	**–**	6,429,072	1.520 – 5.710
	2019	**7,643,000**	**2.745 – 5.280**	5,078,550	2.745 – 5.280
	2020	**5,845,965**	**2.530 – 6.000**	4,053,485	2.530 – 6.000
	2021	**2,464,535**	**4.150 – 5.380**	315,000	4.150 – 5.380
	2022	**5,510,000**	**3.900 – 4.650**	5,510,000	3.900 – 4.650
	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 – 4.850**	640,000	4.550 – 4.850
	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
		24,638,500		24,561,107	
Add:					
Interest payable		**235,762**		201,523	
Unaccreted premium		**8,417**		5,852	
Less:					
Deferred financing fees		**(3,189)**		(4,572)	
Unamortised discount		**(1,419)**		(1,268)	
		24,878,071		24,762,642	
		26,082,391		25,764,940	

22 UNSECURED BEARER BONDS AND NOTES (CONTINUED)

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

	Group	
	2018 RM'000	**2017 RM'000**
Maturing within one year	**9,084,032**	7,626,244
One to three years	**8,313,359**	9,138,696
Three to five years	**6,035,000**	5,825,000
More than five years	**2,650,000**	3,175,000
	26,082,391	25,764,940

(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	
	2018 RM'000	**2017 RM'000**
HKD	**353,648**	521,812
USD	**3,640,217**	3,870,347
SGD	**687,077**	1,349,057
AUD	**–**	318,441
	4,680,942	6,059,657

23 SUKUK

		Group			
		2018		2017	
	Year of maturity	Amount outstanding RM'000	Effective profit rate %	Amount outstanding RM'000	Effective profit rate %
(a) Islamic commercial papers					
	2018	**–**	**–**	305,000	3.510
	2019	**405,000**	**3.510 – 3.800**	–	–
Add:					
Profit payable		**1,358**		1,173	
		406,358		306,173	
(b) Islamic medium-term notes					
	2018	**–**	**–**	1,592,025	1.850 – 5.800
	2019	**1,612,000**	**3.750 – 5.280**	1,187,000	3.750 – 5.280
	2020	**2,230,000**	**3.980 – 6.000**	2,230,000	3.980 – 6.000
	2021	**3,020,000**	**4.150 – 6.000**	245,000	4.150 – 5.380
	2022	**2,150,000**	**3.900 – 4.700**	2,150,000	3.900 – 4.700
	2023	**2,495,000**	**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
		14,247,000		11,139,025	
Add:					
Interest payable		**134,397**		114,351	
Unaccreted premium		**20,717**		39,014	
Less:					
Deferred financing fees		**–**		(29)	
Unamortised discount		**–**		(656)	
		14,402,114		11,291,705	
		14,808,472		11,597,878	

23 SUKUK (CONTINUED)

The maturity structure of the Sukuk are as follows:

	Group	
	2018 RM'000	**2017 RM'000**
Maturing within one year	**2,156,534**	2,011,864
One to three years	**5,266,938**	3,456,014
Three to five years	**4,645,000**	2,395,000
More than five years	**2,740,000**	3,735,000
	14,808,472	11,597,878

(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	
	2018 RM'000	**2017 RM'000**
SGD	**–**	152,843

24 RMBS

	Group				
		2018		2017	
	Year of maturity	Amount outstanding RM'000	Effective interest rate %	Amount outstanding RM'000	Effective interest rate %
RMBS	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		1,265,000	
Add:					
Interest payable		**5,318**		5,318	
		1,270,318		1,270,318	

The maturity structure of the RMBS are as follows:

	Group	
	2018 RM'000	2017 RM'000
Maturing within one year	**265,318**	5,318
One to three years	**385,000**	645,000
Three to five years	**250,000**	250,000
More than five years	**370,000**	370,000
	1,270,318	1,270,318

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.

25 IRMBS

		Group			
		2018		2017	
	Year of maturity	Amount outstanding RM'000	Effective profit rate %	Amount outstanding RM'000	Effective profit rate %
IRMBS	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		1,255,000	
Add:					
Profit attributable		**6,353**		6,353	
		1,261,353		1,261,353	

The maturity structure of the IRMBS are as follows:

	Group	
	2018 RM'000	2017 RM'000
Maturing within one year	**251,353**	6,353
One year to three years	**400,000**	645,000
Three years to five years	**320,000**	320,000
More than five years	**290,000**	290,000
	1,261,353	1,261,353

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.

26 OTHER LIABILITIES

	Group	
	2018 RM'000	**2017 RM'000**
Provision for zakat	**1,584**	927
Amount due to GOM	**54,893**	36,734
Other payables and accruals	**30,708**	23,572
Expected credit loss on guarantee exposure	**1,029**	–
Expected credit loss on Wakalah exposure	**1,440**	–
Provision for Kafalah expenses	**14**	14
	89,668	61,247

26.1 Expected credit loss on guarantee exposure

As at 31 December 2018, the gross unexpired financial guarantee exposure by stage of allocation upon adoption of MFRS 9 effective 1 January 2018 are as follows;

	Unexpired financial guarantee exposure RM'000	**Impairment allowance RM'000**
By stage of allocation:		
Stage 1 (12-months ECL; non credit impaired)	**41,432**	**369**
Stage 2 (Lifetime ECL; non credit impaired)	**557**	**232**
Stage 3 (Lifetime ECL; credit impaired)	**428**	**428**
At 31 December	**42,417**	**1,029**
Impairment allowance over unexpired financial guarantee exposure (%)		**2.4**

26 OTHER LIABILITIES (CONTINUED)

26.1 Expected credit loss on guarantee exposure (continued)

The impairment allowance by stage allocation and movement in impairment allowances that reflects the ECL model on impairment are as follows:

	Group			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
At 1 January				
– as previously stated				**–**
– effect of adoption of MFRS 9				**527**
As restated	**157**	**157**	**213**	**527**
Transfer between stages:				
– Transfer to 12 months ECL (Stage 1)	**207**	**(111)**	**(96)**	**–**
– Transfer to ECL non credit impaired (Stage 2)	**(4)**	**4**	**–**	**–**
– Transfer to ECL credit impaired (Stage 3)	**(4)**	**(24)**	**28**	**–**
Total transfer between stages	**199**	**(131)**	**(68)**	**–**
Allowance during the year on new guarantee exposure	**191**	**126**	**82**	**399**
Guarantee amount derecognised during the period	**(2)**	**(29)**	**(48)**	**(79)**
(Reversal)/allowance during the year due to changes in credit risk	**(176)**	**109**	**249**	**182**
At 31 December	**369**	**232**	**428**	**1,029**

26.2 Expected credit loss on Wakalah exposure

As at 31 December 2018, the unexpired financial Wakalah exposure by stage of allocation upon adoption of MFRS 9 effective 1 January 2018 are as follows:

	Unexpired financial Wakalah exposure RM'000	**Impairment allowance RM'000**
By stage of allocation:		
Stage 1 (12-months ECL; non credit impaired)	**101,423**	**682**
Stage 2 (Lifetime ECL; non credit impaired)	**862**	**319**
Stage 3 (Lifetime ECL; credit impaired)	**439**	**439**
At 31 December	**102,724**	**1,440**
Impairment allowance over unexpired financial Wakalah exposure (%)		**1.4**

26 OTHER LIABILITIES (CONTINUED)

26.2 Expected credit loss on Wakalah exposure (continued)

The impairment allowance by stage allocation and movement in impairment allowances that reflects the ECL model on impairment are as follows:

	Group			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
At 1 January				
– as previously stated				–
– effect of adoption of MFRS 9				683
As restated	325	157	201	683
Transfer between stages:				
– Transfer to 12 months ECL (Stage 1)	193	(156)	37)	–
– Transfer to ECL non credit impaired (Stage 2)	(9)	23	(14)	–
– Transfer to ECL credit impaired (Stage 3)	(3)	(6)	9	–
Total transfer between stages	181	(139)	(42)	–
Allowance during the year on new Wakalah exposure	355	151	98	604
Guarantee amount derecognised during the period	(2)	–	–	(2)
(Reversal)/allowance during the year due to changes in credit risk	(177)	150	182	155
At 31 December	682	319	439	1,440

27 SHARE CAPITAL

	Group and Company			
	2018		2017	
	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	
	2018 RM'000	2017 RM'000
Redeemable preference shares:		
As at 1 January	**–***	–
Issued during the year	**–**	–*
As at 31 December	**–***	–*

* denotes RM1

27 SHARE CAPITAL (CONTINUED)

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.

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.

28 RESERVES

(a) AFS reserves

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

(b) Financial asset designated at FVOCI reserves

This amount represents the unrealised fair value gains or losses on financial asset at FVOCI, net of taxation.

(c) 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.

(d) Regulatory reserves

The Group and the Company have adopted the BNM Guidelines on Classification and Impairment Provisions for Loans/Financing – Maintenance of Regulatory Reserves which was effective from 31 December 2015 and BNM Guidelines on Financial Reporting issued on 2 February 2018 on voluntary basis. The Group and the Company maintain, in aggregate, collective impairment provisions and regulatory reserves of 1.2% of total credit exposures, net of allowances for credit impaired exposures on loans/financing (2017: 1.2% of the total outstanding loans/financing, net of individual impairment provisions).

29 NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM6,349,899,000 of the Group and RM4,183,902,000 of the Company respectively (2017: RM6,048,384,000 of the Group and RM4,183,786,000 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 RM414,466,000 of the Group and RM30,116,000 of the Company respectively (2017: RM414,296,000 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.

30 INTEREST INCOME

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Amount due from counterparties	**883,983**	721,338	**–**	–
Mortgage assets	**315,974**	359,462	**–**	–
Compensation from mortgage assets	**28**	48	**–**	–
Mortgage assets repurchased	**–**	235	**–**	–
Hire purchase assets	**2**	–		
AFS investment securities	**–**	107,794	**–**	–
Financial asset at FVOCI	**117,395**	–	**–**	–
Deposits and placements with financial institutions	**22,813**	39,626	**152**	159
	1,340,195	1,228,503	**152**	159
Accretion of discount less amortisation of premium (net)	**198,240**	205,542	**–**	–
	1,538,435	1,434,045	**152**	159

31 INTEREST EXPENSE

	Group	
	2018 RM'000	**2017 RM'000**
Floating rate notes	**11,380**	10,431
Medium-term notes	**989,740**	883,768
RMBS	**67,245**	99,806
Commercial paper	**28,845**	2,285
Deposit and placement from financial institution	**236**	-
	1,097,446	996,290

32 NON-INTEREST (EXPENSE)/INCOME

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Net derivatives expense	**(75,666)**	(69,287)	**–**	–
Gain on disposal of AFS investment securities	**–**	2,756	**–**	–
Gain on disposal of financial assets at FVOCI	**3,553**	–	**–**	–
Income from financial asset at FVTPL	**3,649**	–	**–**	–
Gain on disposal of property and equipment	**70**	–	**–**	–
Guarantee fee income	**2,065**	1,331	**–**	–
Reclassification adjustments on fair value (loss)/gain on CCS, transfer from equity	**(33,592)**	236,599	**–**	–
Unrealised gain/(loss) on foreign exchange	**33,157**	(236,856)	**–**	–
Dividend income	**–**	–	**30,000**	30,000
Other non-operating income/(expense)	**107**	(415)	**–**	–
	(66,657)	(65,872)	**30,000**	30,000

33 PERSONNEL COSTS

	Group	
	2018 RM'000	**2017 RM'000**
Salary and allowances	**13,669**	13,528
Bonus	**5,933**	6,647
Overtime	**58**	58
EPF and SOCSO	**3,313**	3,859
Insurance	**665**	747
Others	**2,888**	2,463
	26,526	27,302

34 WRITE-BACK OF IMPAIRMENT LOSSES

Write-back of impairment losses	**6,653**	72

35 DIRECTORS' REMUNERATION

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

<u>Non-Executive Directors</u>

Encik Nik Mohd Hasyudeen bin Yusoff (Chairman)
Tan Sri Dato' Sri Tay Ah Lek
Datuk George Ratilal
Datuk Abdul Farid bin Alias
Dato' Lee Kok Kwan
Puan Wan Hanisah binti Wan Ibrahim
Dato' Bakarudin bin Ishak (appointed on 1 January 2019)
Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (appointed on 1 January 2019)
Datuk Shaik Abdul Rasheed bin Abdul Ghaffour (resigned on 1 January 2019)
Datuk Azizan bin Haji Abd Rahman (resigned on 1 January 2019)

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

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Directors' fees	**900**	1,016	**420**	443
Directors' other emoluments	**1,937**	2,026	**185**	205
	2,837	3,042	**605**	648

For the financial year ended 31 December 2018, a total of RM170,000 (2017: RM170,000) has been paid by the Group in relation to insurance premium paid for directors and officers of the Group and Company.

36 PROFIT BEFORE TAXATION AND ZAKAT

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

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Directors' remuneration (Note 35)	**2,837**	3,042	**–***	–*
Rental of premises	**2,648**	2,648	**–**	–
Hire of equipment	**597**	529	**–**	–
Auditors' remuneration:				
– Audit fees	**454**	439	**–***	–*
– Non-audit fees	**42**	162	**–***	–*
Depreciation of property and equipment	**1,421**	1,057	**–**	–
Amortisation of intangible assets	**2,897**	1,416	**–**	–
Servicers fees	**2,918**	4,198	**–**	–
Repairs and maintenance	**5,896**	(395)	**–**	–
Donations and sponsorship	**152**	10	**–**	–
Corporate expenses	**756**	673	**–**	–
Travelling expenses	**915**	510	**–**	–
Write-back of impairment losses	**(6,653)**	(72)	**–**	–
Gain on disposal of property and equipment	**(70)**	–	**–**	–

* Directors' remuneration of RM605,000 (2017: RM647,750) and auditor's remuneration of RM36,252 which include audit fee of RM30,517 and non-audit fee of RM5,735 (2017: RM36,252, comprising RM30,517 and non-audit fee of RM5,735 respectively) for the Company in the financial year were borne by Cagamas.

37 TAXATION

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
(a) Tax charge for the financial year				
Malaysian income tax:				
– Current tax	**72,282**	105,851	**36**	38
– Deferred taxation (Note 19)	**53,570**	27,128	**–**	–
	125,852	132,979	**36**	38
Current tax:				
– Current year	**76,176**	104,275	**36**	38
– (Over)/under provision in prior year	**(3,894)**	1,576	**–**	–
Deferred taxation:				
– Origination and reversal of temporary differences (Note 19)	**53,570**	27,128	**–**	–
	125,852	132,979	**36**	38

37 TAXATION (CONTINUED)

(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	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Profit before taxation and zakat	**543,980**	548,248	**30,153**	30,158
Tax calculated at Malaysian tax rate of 24% (2017: 24%)	**130,555**	131,580	**7,236**	7,238
Expenses not deductible for tax purposes	**173**	456	**–**	–
Income not subject to tax	**–**	–	**(7,200)**	(7,200)
Deductible tax losses from subsidiary utilised	**(39)**	(27)	**–**	–
(Over)/under provision in prior year	**(3,894)**	1,576	**–**	–
Deduction arising from zakat contribution	**(234)**	(249)	**–**	–
Different tax rate in Labuan	**(1,062)**	(1,011)	**–**	–
Loss not subject to tax	**40**	29	**–**	–
Others	**313**	625	**–**	–
	125,852	132,979	**36**	38

38 DIVIDENDS

Dividends of the Group and the Company are as follows:

	Group and Company			
	2018		**2017**	
	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

38 DIVIDENDS (CONTINUED)

Dividends of the Group and the Company are as follows: (continued)

	Group	
	2018 Total amount RM'000	**2017 Total amount RM'000**
<u>On redeemable preference shares:</u>		
Dividend paid in specie	**–**	126,430
Dividend paid in cash	**80,946**	139,472
	80,946	265,902

At the forthcoming Annual General Meeting, a first interim dividend in respect of the financial year ended 31 December 2019 of 15 sen per ordinary share (2018: 15 sen per ordinary share) amounting to RM22,500.000 (2018: 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 2018 was approved by the Board of Directors of a subsidiary company, CMBS on 3 September 2018, and paid in the current financial year. This is shown as a reduction in the other reserves 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 2018.

39 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.

39 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	
	2018 RM'000	**2017 RM'000**
(Income)/expenses		
FAST* and RENTAS** charges	**(18)**	(18)
Director's fee and allowance	**733**	101
Servicers fees	**2,978**	4,198
Amount due from/(to):		
BNM current accounts	**26**	30
Reimbursement of operating expenses	**8**	6
Directors' fee & allowances	**(65)**	(85)
Servicers fees	**(571)**	(943)

* 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 RM6,256,353 (2017: RM7,390,607).

The total remuneration paid to the Directors is disclosed in Note 35 to the financial statements.

(c) Transaction with the GOM and its related parties

As BNM has significant influence over the Group and the Company, the GOM and an entity 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.

40 COMMITMENT AND CONTINGENCY

(a) As at the end of the financial year, the Group's guarantee exposure to the SRP and SPB schemes for guarantee and Wakalah contracts amounted to RM90,377,047 (2017: RM48,827,604) and RM54,763,838 (2017: RM33,087,030) respectively.

Included above are contingent liabilities relating to possible claims against the Group 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 RM446,762 (2017: RM379,839) and RM1,148,891 (2017: RM435,797). 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	
	2018 **RM'000**	**2017** **RM'000**
Capital expenditure:		
Authorised and contracted for	**1,380**	12,054
Authorised but not contracted for	**1,322**	3,911
	2,702	15,965
Analysed as follows:		
Equipment and others	**54**	196
Computer hardware and software	**2,648**	15,769
	2,702	15,965

41 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	
	2018 **RM'000**	**2017** **RM'000**
Maturing within one year	**4,550**	4,727
One to three years	**6,242**	6,593
	10,792	11,320

42 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.

42 INTEREST/PROFIT RATE RISK (CONTINUED)

	Group					
2018	**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	397,798	–	–	–	70,362	468,160
Deposits and placements with financial institutions	627,870	24,469	–	–	–	652,339
Financial asset at FVOCI	849,272	777,335	1,111,643	1,129,078	–	3,867,328
Amount due from counterparties	6,004,319	8,420,632	5,345,008	635,032	(67)	20,404,924^1
Islamic financing assets	1,835,052	4,269,044	3,926,484	–	(627)	10,029,953^2
Mortgage assets:						
– Conventional	1,223,236	1,652,012	1,415,695	3,604,386	(956,005)	6,939,324^3
– Islamic	1,017,812	1,631,110	1,434,957	4,688,826	(914,758)	7,857,947^4
Hire purchase assets:						
– Conventional	2	–	–	–	(2)	–^5
– Islamic	795	–	–	–	(14)	781^6
Other assets	356,716	1,699	795	6,900	114,610	480,720
	12,312,872	16,776,301	13,234,582	10,064,222	(1,686,501)	50,701,476
Financial liabilities						
Unsecured bearer bonds and notes	9,084,032	8,313,359	6,035,000	2,650,000	–	26,082,391
Sukuk	2,156,534	5,266,938	4,645,000	2,740,000	–	14,808,472
RMBS	265,318	385,000	250,000	370,000	–	1,270,318
IRMBS	251,353	400,000	320,000	290,000	–	1,261,353
Deferred guarantee fees	–	–	–	–	7,393	7,393
Deferred Wakalah fees	–	–	–	–	21,776	21,776
Other liabilities	127,352	9,792	17,471	–	722,410	877,025
	11,884,589	14,375,089	11,267,471	6,050,000	751,579	44,328,728
Interest/profit sensitivity gap	428,283	2,401,212	1,967,111	4,014,222		
Cumulative gap	428,283	2,829,495	4,796,606	8,810,828		

^1 Includes impairment losses on amount due from counterparties of RM66,581.
^2 Includes impairment losses on Islamic financing asset of RM627,130
^3 Includes impairment losses on mortgage assets of RM41,449,125
^4 Includes impairment losses on Islamic mortgage assets of RM36,095,998.
^5 Includes impairment losses on hire purchase assets of RM2,059.
^6 Includes impairment losses on Islamic hire purchase assets of RM14,937.

42 INTEREST/PROFIT RATE RISK (CONTINUED)

2017	Group 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 mortgage assets of RM50,802,978.
^2 Includes impairment losses on Islamic mortgage assets of RM43,102,337.
^3 Includes impairment losses on hire purchase assets of RM2,059.
^4 Includes impairment losses on Islamic hire purchase assets of RM62,050.

42 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		-100 basis	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Impact to equity:				
AFS reserves	**–**	(107,332)	**–**	114,239
Financial asset at FVOCI reserves	**(117,347)**	–	**124,365**	–
PWR (floating rate)	**(7,033)**	(6,202)	**7,193**	6,362
Unsecured bonds and notes (floating rate)	**731**	1,087	**(740)**	(1,100)
Taxation effects on the above at tax rate of 24%	**29,676**	26,987	**(31,396)**	(28,680)
Effect on shareholder's funds	**(93,973)**	(85,460)	**99,422**	90,821
As percentage of shareholder's funds	**(1.5%)**	(1.4%)	**1.6%**	1.4%
Impact to income statements:				
Net interest income	**3,691**	1,169	**(3,685)**	(1,162)
Taxation effects at the rate of 24%	**(886)**	(281)	**884**	279
Effect on net interest income	**2,805**	888	**(2,801)**	(883)
As percentage of profit after tax	**0.7%**	0.4%	**(0.7%)**	(0.4%)

43 CREDIT RISK

43.1 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.

43 CREDIT RISK (CONTINUED)

43.1 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	Financial asset at FVOCI 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
2018												
Government bodies	-	-	-	1,179,710	-	-	-	-	-	774	-	1,180,484
Financial institutions:												
- Commercial banks	425,918	652,339	362,078	678,676	19,875,677	10,029,953	-	-	-	-	-	32,024,641
- Investment banks	42,242	-	-	-	-	-	-	-	-	-	-	42,242
Communication, electricity, gas and water	-	-	-	176,729	-	-	-	-	-	-	-	176,729
Transportation	-	-	-	852,990	-	-	-	-	-	-	-	852,990
Leasing	-	-	-	-	529,247	-	-	-	-	-	-	529,247
Consumers	-	-	-	-	-	-	6,939,324	7,857,947	781	-	145,141	14,943,193
Construction	-	-	-	234,187	-	-	-	-	-	-	-	234,187
Related company	-	-	-	21,346	-	-	-	-	-	-	-	21,346
Corporate	-	-	-	192,685	-	-	-	-	-	-	-	192,685
Others	-	-	-	531,005	-	-	-	-	-	5,815	-	536,820
Total	468,160	652,339	362,078	3,867,328	20,404,924	10,029,953	6,939,324	7,857,947	781	6,589	145,141	50,734,564

43 CREDIT RISK (CONTINUED)

43.1 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

43 CREDIT RISK (CONTINUED)

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

All mortgage assets and Islamic mortgage assets are categorised as either:
- neither more than 90 days past due nor individually impaired; or
- more than 90 days past due but not individually impaired.

Neither more than 90 days past due nor individually impaired comprise mortgage assets and Islamic mortgage assets which is not past due and classified under Stage 1 and Stage 2 financial assets (2017: non-impaired and performing loans).

More than 90 days past due but not individually impaired comprise mortgage assets and Islamic mortgage assets categorised under Stage 3 financial assets (2017: impaired and non-performing loans).

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 more than 90 days past due nor individually impaired RM'000	More than 90 days 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 %
2018							
Amount due from counterparties	**20,404,991**	**–**	**20,404,991**	**67**	**20,404,924**	**–**	**–**
Islamic financing assets	**10,030,580**	**–**	**10,030,580**	**627**	**10,029,953**	**–**	**–**
Mortgage assets:							
– Conventional	**6,886,857**	**93,916**	**6,980,773**	**41,449**	**6,939,324**	**93,916**	**44**
– Islamic	**7,818,945**	**75,098**	**7,894,043**	**36,096**	**7,857,947**	**75,098**	**48**
Hire purchase assets:							
– Conventional	**–**	**2**	**2**	**2**	**–**	**2**	**100**
– Islamic	**741**	**55**	**796**	**15**	**781**	**55**	**27**
	45,142,114	**169,071**	**45,311,185**	**78,256**	**45,232,929**	**169,071**	

* these assets have been provided for under collective assessment.

43 CREDIT RISK (CONTINUED)

43.2 Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets, Islamic mortgage assets and Islamic hire purchase assets (continued)

Group	Neither more than 90 days past due nor individually impaired RM'000	More than 90 days 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.

Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets, Islamic mortgage assets and Islamic hire purchase assets neither more than 90 days past due nor individually impaired are as below:

	Group			
	2018		2017	
	Strong RM'000	Total RM'000	Strong RM'000	Total RM'000
Amount due from counterparties	**20,404,991**	**20,404,991**	19,870,378	19,870,378
Islamic financing assets	**10,030,580**	**10,030,580**	5,544,378	5,544,378
Mortgage assets:				
– Conventional	**6,886,857**	**6,886,857**	7,646,258	7,646,258
– Islamic	**7,818,945**	**7,818,945**	8,435,419	8,435,419
Hire purchase assets:				
– Islamic	**741**	**741**	953	953
	45,142,114	**45,142,114**	41,497,386	41,497,386

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.

43 CREDIT RISK (CONTINUED)

43.2 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 more than 90 days 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
2018					
Mortgage assets:					
– Conventional	**7,982**	**3,977**	**4,289**	**77,668**	**93,916**
– Islamic	**5,695**	**3,880**	**2,174**	**63,349**	**75,098**
Hire purchase assets:					
– Conventional	**–**	**–**	**–**	**2**	**2**
– Islamic	**–**	**–**	**–**	**55**	**55**
	13,677	**7,857**	**6,463**	**141,074**	**169,071**
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

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 2018, 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.

43 CREDIT RISK (CONTINUED)

43.2 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	Effects of adopting MFRS 9 on 1 January 2018 RM'000	Restated as at 1 January RM'000	Allowance/ (write-back) made RM'000	Allowance written-off to principal balance outstanding RM'000	As at 31 December RM'000
2018						
Amount due from counterparties	**–**	**41**	**41**	**26**	**–**	**67**
Islamic financing assets	**–**	**222**	**222**	**405**	**–**	**627**
Mortgage assets:						
– Conventional	**50,803**	**(6,125)**	**44,678**	**(2,996)**	**(233)**	**41,449**
– Islamic	**43,103**	**(1,631)**	**41,472**	**(5,341)**	**(35)**	**36,096**
Hire purchase assets:						
– Conventional	**2**	**–**	**2**	**–**	**–**	**2**
– Islamic	**62**	**(41)**	**21**	**(6)**	**–**	**15**
	93,970	**(7,534)**	**86,436**	**(7,912)**	**(268)**	**78,256**
2017						
Mortgage assets:						
– Conventional	52,979	–	52,979	(1,161)	(1,015)	50,803
– Islamic	42,465	–	42,465	1,089	(451)	43,103
Hire purchase assets:						
– Conventional	2	–	2	–	–	2
– Islamic	215	–	215	–	(153)	62
	95,661	–	95,661	(72)	(1,619)	93,970

43 CREDIT RISK (CONTINUED)

43.3 Credit quality

The following table contains an analysis of credit exposure by stages, together with the impairment allowance:

	Group					
	GOM RM'000	AAA RM'000	AA1 to AA2/ AA+ to AA RM'000	No rating RM'000	Total RM'000	Impairment allowance RM'000
2018						
Financial asset at FVOCI						
– Stage 1	**1,901,854**	**1,481,311**	**484,163**	**–**	**3,867,328**	**–**
Amount due from counterparties						
– Stage 1	**–**	**12,093,144**	**8,311,847**	**–**	**20,404,991**	**67**
Islamic financing assets						
– Stage 1	**–**	**1,918,267**	**8,112,313**	**–**	**10,030,580**	**627**
Mortgage assets:						
– Stage 1	**–**	**–**	**–**	**7,783,682**	**7,783,682**	**9,755**
– Stage 2	**–**	**–**	**–**	**17,731**	**17,731**	**1,713**
– Stage 3	**–**	**–**	**–**	**93,916**	**93,916**	**29,981**
	–	**–**	**–**	**7,895,329**	**7,895,329**	**41,449**
Islamic mortgage assets:						
– Stage 1	**–**	**–**	**–**	**8,686,530**	**8,686,530**	**10,946**
– Stage 2	**–**	**–**	**–**	**12,076**	**12,076**	**1,119**
– Stage 3	**–**	**–**	**–**	**75,098**	**75,098**	**24,031**
	–	**–**	**–**	**8,773,704**	**8,773,704**	**36,096**
Hire purchase assets						
– Stage 3	**–**	**–**	**–**	**2**	**2**	**2**

43 CREDIT RISK (CONTINUED)

43.3 Credit quality (continued)

The following table contains an analysis of credit exposure by stages, together with the impairment allowance (continued):

	Group					
	GOM RM'000	**AAA RM'000**	**AA1 to AA2/ AA+ to AA RM'000**	**No rating RM'000**	**Total RM'000**	**Impairment allowance RM'000**
2018						
Islamic hire purchase asset						
– Stage 1	–	–	–	740	740	1
– Stage 3	–	–	–	55	55	14
	–	–	–	795	795	15
Guarantee exposure						
– Stage 1	–	–	–	41,432	41,432	369
– Stage 2	–	–	–	557	557	232
– Stage 3	–	–	–	428	428	428
	–	–	–	42,417	42,417	1,029
Wakalah exposure						
– Stage 1	–	–	–	101,423	101,423	682
– Stage 2	–	–	–	862	862	319
– Stage 3	–	–	–	439	439	439
	–	–	–	102,724	102,724	1,440

43 CREDIT RISK (CONTINUED)

43.4 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
2018						
Derivatives financial liabilities	**(154,614)**	**–**	**(154,614)**	**–**	**–**	**(154,614)**
2017						
Derivatives financial liabilities	(216,871)	–	(216,871)	–	7,760	(209,111)

44 LIQUIDITY RISK

44.1 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.

44 LIQUIDITY RISK (CONTINUED)

44.2 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	Financial asset at FVOCI 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
2018	**1,120,499**	**362,078**	**-**	**3,867,328**	**6,939,324**	**7,857,947**	**20,404,924**	**10,029,953**	**4,098**	**50,586,151**
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

44.3 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
2018						
Financial liabilities						
Unsecured bearer bonds and notes	8,810	538,482	8,316,995	14,348,653	5,647,895	28,860,835
Sukuk	-	-	2,020,779	9,911,938	5,709,035	17,641,752
RMBS	-	16,744	307,420	774,594	421,396	1,520,154
IRMBS	-	14,234	282,660	819,414	333,999	1,450,307
Unexpired financial guarantee contracts	145,141	-	-	-	-	145,141
Other liabilities	3,289	-	-	-	54,893	58,182
	157,240	569,460	10,927,854	25,854,599	12,167,218	49,676,371
Assets held for managing liquidity risk	1,321,304	2,374,503	7,529,444	29,613,666	10,525,223	51,364,140

44 LIQUIDITY RISK (CONTINUED)

44.3 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
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

44 LIQUIDITY RISK (CONTINUED)

44.4 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.

	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**
2018						
Derivatives held for hedging						
– IRS/IPRS	**168**	**1,186**	**(4,392)**	**(10,203)**	**1,223**	**(12,018)**
– CCS/ICCS	**(193,323)**	**(832,562)**	**352,556**	**780,908**	**–**	**107,579**
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

45 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.

45 FOREIGN EXCHANGE RISK (CONTINUED)

45.1 Exposure to foreign currency risk

	Group			
	AUD RM'000	**HKD RM'000**	**USD RM'000**	**SGD RM'000**
2018				
Derivatives financial instruments	**–**	**359,858**	**3,594,430**	**697,796**
Unsecured bonds and notes	**–**	**353,648**	**3,640,217**	**687,077**
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

45.2 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			
	2018		**2017**	
	Equity RM'000	**Profit RM'000**	**Equity RM'000**	**Profit RM'000**
AUD	**–**	**–**	6	–
HKD	**44**	**–**	2	–
USD	**(362)**	**–**	(166)	(1)
SGD	**76**	**5**	18	–
	(242)	**5**	(140)	(1)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS

46.1 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.

The fair value of the AFS investment securities/financial asset at FVOCI 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.

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

46.1 Fair value of financial instruments carried at fair value (continued)

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**
2018				
Assets				
Financial asset at FVOCI	**–**	**3,867,328**	**–**	**3,867,328**
Derivative financial instruments	**–**	**362,078**	**–**	**362,078**
Liabilities				
Derivative financial instruments	**–**	**154,614**	**–**	**154,614**
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

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

46.2 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			
	2018		2017	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Financial assets				
Amount due from counterparties	**20,404,924**	**20,425,021**	19,870,378	19,944,333
Islamic financing assets	**10,029,953**	**10,015,154**	5,544,378	5,504,117
Mortgage assets:				
- Conventional	**6,939,324**	**7,433,318**	7,678,054	7,790,297
- Islamic	**7,857,947**	**8,616,682**	8,465,367	8,842,572
Hire purchase assets:				
- Islamic	**781**	**822**	953	1,186
	45,232,929	**46,490,997**	41,559,130	42,082,505

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

46.2 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			
	2018		2017	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Financial liabilities				
Unsecured bearer bonds and notes	**26,082,391**	**26,526,636**	25,764,940	26,158,440
Sukuk	**14,808,472**	**15,208,248**	11,597,878	11,925,862
RMBS	**1,270,318**	**1,314,893**	1,270,318	1,314,893
IRMBS	**1,261,353**	**1,284,377**	1,261,353	1,284,377
	43,422,534	**44,334,154**	39,894,489	40,683,572

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.

47 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.

47 SEGMENT REPORTING (CONTINUED)

	Group			
	PWR RM'000	**PWOR RM'000**	**Mortgage guarantee RM'000**	**Total RM'000**
2018				
External revenue	**1,321,385**	**1,033,698**	**16,048**	**2,371,131**
External interest/profit expense	**(1,068,285)**	**(633,548)**	**–**	**(1,701,833)**
Profit from operations	**141,367**	**390,394**	**12,219**	**543,980**
Zakat	**(1,156)**	**(428)**	**(78)**	**(1,662)**
Taxation	**(35,273)**	**(87,187)**	**(3,392)**	**(125,852)**
Profit after taxation and zakat by segment	**104,938**	**302,779**	**8,749**	**416,466**
Segment assets	**32,797,346**	**17,595,640**	**278,856**	**50,671,842**
Segment liabilities	**30,630,144**	**13,664,379**	**34,205**	**44,328,728**
Other information:				
Capital expenditure	**8,104**	**2,967**	**–**	**11,071**
Depreciation and amortisation	**3,161**	**1,157**	**–**	**4,318**

47 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

48 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
2018					
ASSETS					
Cash and short-term funds	187,340	237,144	43,676	–	468,160
Deposits and placements with financial institutions	1,698	626,172	24,469	–	652,339
Derivative financial instruments	362,078	–	–	–	362,078
Financial asset at FVOCI	2,476,285	1,187,981	203,062	–	3,867,328
Amounts due from counterparties	20,404,924	–	–	–	20,404,924
Islamic financing assets	10,029,953	–	–	–	10,029,953
Mortgage assets:					
– Conventional	5,344,710	1,594,614	–	–	6,939,324
– Islamic	5,915,527	1,942,420	–	–	7,857,947
Hire purchase assets:					
– Islamic	781	–	–	–	781
Amount due from a related company	294	–	–	(294)	–
Other assets	7,357	–	7	(775)	6,589
Property and equipment	4,694	–	–	–	4,694
Intangible assets	22,849	–	–	–	22,849
Deferred taxation	29,635	6,390	7,634	–	43,659
Tax recoverable	40,851	–	–	–	40,851
Investment in subsidiaries	4,181,628	–	–	(4,181,628)	–
TOTAL ASSETS	49,010,604	5,594,721	278,848	(4,182,697)	50,701,476
LIABILITIES					
Unsecured bearer bonds and notes	26,082,391	–	–	–	26,082,391
Sukuk	14,808,472	–	–	–	14,808,472
Derivative financial instruments	154,614	–	–	–	154,614
RMBS	–	1,270,318	–	–	1,270,318
IRMBS	–	1,261,353	–	–	1,261,353
Deferred guarantee fee income	–	–	7,393	–	7,393
Deferred Wakalah fee income	–	–	21,776	–	21,776
Deferred taxation	56,987	565,665	148	–	622,800
Provision for taxation	–	8,344	1,599	–	9,943
Other liabilities	86,997	492	3,284	(1,105)	89,668
TOTAL LIABILITIES	41,189,461	3,106,172	34,200	(1,105)	44,328,728

* Total assets of CMGP and CSME comprise cash of RM8,000 and nil respectively. Total liabilities of CMGP and CSME were RM5,000 and nil respectively.

48 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					
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
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 assets of CMGP and CSME comprise cash of RM14,000 and RM2 respectively. Total liabilities of CMGP and CSME were RM4,000 and nil respectively.

48 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
2018					
Interest income	1,348,910	180,057	9,468	–	1,538,435
Interest expense	(1,030,201)	(67,245)	–	–	(1,097,446)
Income from Islamic operations	110,949	105,526	4,515	–	220,990
Non-interest (expense)/income	(32,390)	–	2,065	(36,332)	(66,657)
	397,268	218,338	16,048	(36,332)	595,322
Administration and general expenses	(30,715)	(4,522)	(2,564)	6,332	(31,469)
Personnel costs	(26,526)	–	–	–	(26,526)
OPERATING PROFIT	340,027	213,816	13,484	(30,000)	537,327
Write-back/(allowance) for impairment losses	6,068	1,844	(1,259)	–	6,653
PROFIT BEFORE TAXATION AND ZAKAT	346,095	215,660	12,225	(30,000)	543,980
Zakat	(1,584)	–	(78)	–	(1,662)
Taxation	(70,671)	(51,790)	(3,391)	–	(125,852)
PROFIT FOR THE FINANCIAL YEAR	273,840	163,870	8,756	(30,000)	416,466

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

48 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
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)/write-back 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

49 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.

49.1 Regulatory capital

	Group	
	2018	**2017**
	%	**%**
Before deducting interim dividends*		
CET I capital ratio	**43.4**	33.6
Tier I capital ratio	**43.4**	33.6
Total capital ratio	**45.0**	35.1
After deducting interim dividends*		
CET I capital ratio	**43.3**	33.5
Tier I capital ratio	**43.3**	33.5
Total capital ratio	**44.8**	34.9

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

49 CAPITAL ADEQUACY (CONTINUED)

49.1 Regulatory capital (continued)

	Group	
	2018 **RM'000**	**2017** **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	**6,253,489**	5,943,163
	6,403,489	6,093,163
Financial asset at FVOCI reserves	**(4,970)**	–
AFS reserves	**–**	67
Deferred tax assets	**(43,659)**	–
Less: Regulatory reserves*	**(144,472)**	(161,032)
Total CET I/Tier I capital	**6,210,388**	5,932,198
Tier II capital		
Allowance for impairment losses	**78,256**	93,970
Add: Regulatory reserves*	**144,472**	161,032
Total Tier II capital	**222,728**	255,002
Total capital	**6,433,116**	6,187,200
The breakdown of risk-weighted assets by each major risk category is as follows:		
Credit risk	**13,115,681**	16,444,081
Operational risk	**1,187,334**	1,195,160
Total risk-weighted assets	**14,303,015**	17,639,241

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

49 CAPITAL ADEQUACY (CONTINUED)

49.2 Proforma regulatory capital excluding CMBS

	Group	
	2018 **%**	**2017** **%**
Before deducting interim dividends*		
CET I capital ratio	**31.3**	24.0
Tier I capital ratio	**31.3**	24.0
Total capital ratio	**32.9**	25.4
After deducting interim dividends*		
CET I capital ratio	**31.1**	23.8
Tier I capital ratio	**31.1**	23.8
Total capital ratio	**32.7**	25.3

	Group	
	2018 **RM'000**	**2017** **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	**3,767,666**	3,539,367
	3,917,666	3,689,367
Financial asset at FVOCI reserves	**2,244**	–
AFS reserves	**–**	(724)
Deferred tax assets	**(37,269)**	–
Less: Regulatory reserves ***	**(144,472)**	(161,032)
Total CET I/Tier I capital	**3,738,169**	3,527,611
Tier II capital		
Allowance for impairment losses	**53,182**	68,232
Add: Regulatory reserves ***	**144,472**	161,032
Total Tier II capital	**197,654**	229,264
Total capital	**3,935,823**	3,756,875
The breakdown of risk-weighted assets by each major risk category is as follows:		
Credit risk	**11,808,730**	14,902,242
Operational risk	**767,699**	776,922
Total risk-weighted assets	**12,576,429**	15,679,164

* refers to proposed interim dividends which are 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

50 ISLAMIC OPERATIONS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
ASSETS			
Cash and short-term funds	(a)	**44,456**	167,281
Deposits and placements with financial institutions	(b)	**589,518**	133,429
AFS investment securities	(c)	**–**	897,606
Financial asset at FVOCI	(d)	**601,699**	–
Financing assets	(e)	**9,493,458**	5,544,378
Mortgage assets	(f)	**7,854,370**	8,462,093
Hire purchase assets	(g)	**287**	457
Tax recoverable		**18,153**	–
Deferred taxation		**15,637**	3,873
Other assets and prepayments		**289,105**	289,393
TOTAL ASSETS		**18,906,683**	15,498,510
LIABILITIES			
Sukuk	(h)	**14,808,472**	11,597,878
IRMBS	(i)	**1,261,353**	1,261,353
Derivative financial instruments		**3,924**	–
Deferred taxation		**280,304**	257,617
Deferred Wakalah fees		**21,776**	11,847
Provision for taxation		**6,129**	3,404
Other liabilities	(j)	**12,190**	18,807
TOTAL LIABILITIES		**16,394,148**	13,150,906
ISLAMIC OPERATIONS' FUNDS		**2,512,535**	2,347,604
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		**18,906,683**	15,498,510

50 ISLAMIC OPERATIONS (CONTINUED)

CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Total income attributable		**885,332**	812,184
Income attributable to the Sukuk holders	(k)	**(661,246)**	(573,007)
Non-profit expense		**(5,253)**	(5,966)
Total income attributable	(l)	**218,833**	233,211
Administration and general expenses		**(5,004)**	(10,196)
Write-back/(allowance) for impairment losses		**4,221**	(1,089)
PROFIT BEFORE TAXATION AND ZAKAT		**218,050**	221,926
Zakat		**(1,662)**	(973)
Taxation		**(52,403)**	(53,927)
PROFIT FOR THE FINANCIAL YEAR		**163,985**	167,026

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	2018 RM'000	2017 RM'000
Profit for the financial year	**163,985**	167,026
Other comprehensive income:		
Items that may be subsequently reclassified to income statement		
AFS investment securities		
- Net gain on fair value changes before taxation	**–**	1,370
- Deferred taxation	**–**	(329)
Financial asset at FVOCI		
- Net gain on fair value changes before taxation	**141**	–
- Deferred taxation	**(33)**	–
Cash flow hedge		
– Net gain/(loss) on cash flow hedge before taxation	**1,730**	(6,788)
– Deferred taxation	**(415)**	1,408
Other comprehensive income/(loss) for the financial year, net of taxation	**1,423**	(4,339)
Total comprehensive income for the financial year	**165,408**	162,687

50 ISLAMIC OPERATIONS (CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN ISLAMIC OPERATIONS' FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Group	Allocated capital funds RM'000	AFS reserves RM'000	Financial asset at FVOCI reserves RM'000	Cash flow hedge reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2018	**294,159**	**339**	**–**	**(4,054)**	**83,655**	**1,973,505**	**2,347,604**
Effects of adopting MFRS 9 on 1 January 2018	**–**	**(339)**	**339**	**–**	**–**	**(477)**	**(477)**
As restated	**294,159**	**–**	**339**	**(4,054)**	**83,655**	**1,973,028**	**2,347,127**
Profit for the financial year	**–**	**–**	**–**	**–**	**–**	**163,985**	**163,985**
Other comprehensive income	**–**	**–**	**108**	**1,315**	**–**	**–**	**1,423**
Total comprehensive income for the financial year	**–**	**–**	**108**	**1,315**	**–**	**163,985**	**165,408**
Transfer to retained profits during the financial year	**–**	**–**	**–**	**–**	**(7,642)**	**7,642**	**–**
Balance as at 31 December 2018	**294,159**	**–**	**447**	**(2,739)**	**76,013**	**2,144,655**	**2,512,535**

50 ISLAMIC OPERATIONS (CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN ISLAMIC OPERATIONS' FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Group	Allocated capital funds RM'000	AFS reserves RM'000	Cashf low hedge reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000	Total RM'000
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

50 ISLAMIC OPERATIONS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	2018 RM'000	2017 RM'000
OPERATING ACTIVITIES		
Profit for the financial year	**163,985**	167,026
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	**–**	(4,677)
– Financial asset at FVOCI	**(10,745)**	–
– Mortgage assets	**(134,343)**	(154,899)
– Hire purchase assets	**(1)**	(17)
– Sukuk	**656**	651
Income from:		
– AFS investment securities	**–**	(8,949)
– Financial asset at FVOCI	**(12,306)**	–
– Islamic operations	**(614,063)**	(618,428)
Profit attributable to Sukuk holders	**660,590**	579,424
Loss/(gain) on disposal of:		
– AFS investment securities	**–**	(49)
– Financial asset at FVOCI	**747**	–
(Write-back)/allowance for impairment losses on mortgage assets and hire purchase assets	**(4,221)**	1,089
Reclassification adjustment on fair value gain on CCS, transfer from equity	**(3,662)**	(12,434)
Unrealised loss on foreign exchange	**9,149**	27,716
Wakalah fee income	**(3,653)**	(2,945)
Write-off of mortgage assets	**–**	17
Taxation	**52,239**	53,927
Zakat	**1,662**	973
Operating profit before working capital changes	**106,034**	28,425
Increase in financing assets	**(3,927,934)**	(230,874)
Decrease in mortgage assets	**638,580**	726,630
(Increase)/decrease in hire purchase assets	**(114)**	1,205
Increase in other assets and prepayments	**(74)**	(26)
Decrease in IRMBS	**–**	(810,000)
Increase in Sukuk	**3,190,348**	382,462
Decrease/(increase) in deferred financing fee	**29**	(174)
(Increase)/decrease in derivatives	**(10,979)**	11,270
Decrease in other liabilities	**(3,799)**	(110,032)

50 ISLAMIC OPERATIONS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	Note	2018 RM'000	2017 RM'000
OPERATING ACTIVITIES (CONTINUED)			
Cash utilised in operating activities		**(7,909)**	(1,114)
Profit received from assets		**703,166**	635,053
Wakalah fee received		**13,582**	7,145
Profit paid to Sukuk holders		**(641,029)**	(583,655)
Payment of:			
– Taxation		**(50,835)**	(48,926)
– Zakat		**(973)**	(1,037)
Net cash generated from operations		**16,002**	7,466
INVESTING ACTIVITIES			
Purchase of:			
– AFS investment securities		**–**	(1,829,287)
– Financial asset at FVOCI		**(2,501,574)**	–
Net proceeds from sale/redemption of:			
– AFS investment securities		**–**	1,331,946
– Financial asset at FVOCI		**2,805,515**	–
Income received from:			
– AFS investment securities		**–**	2,712
– Financial asset at FVOCI		**13,321**	–
Net cash generated from/(utilised in) investing activities		**317,262**	(494,629)
Net increase/(decrease) in cash and cash equivalents		**333,264**	(487,163)
Cash and cash equivalents as at 1 January		**300,710**	787,873
Cash and cash equivalents as at 31 December		**633,974**	300,710

Analysis of cash and cash equivalents:

	Note	2018 RM'000	2017 RM'000
Cash and short-term funds	(a)	**44,456**	167,281
Deposits and placements with financial institutions	(b)	**589,518**	133,429
		633,974	300,710

50 ISLAMIC OPERATIONS (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

NOTES TO ISLAMIC OPERATIONS

	Group 2018 RM'000	Group 2017 RM'000
(a) Cash and short-term funds		
Cash and bank balances with bank and other financial institutions	**197**	319
Mudharabah money at call and deposit placements maturing within one month	**44,259**	166,962
	44,456	167,281
(b) Deposits and placements with financial institutions		
Licensed banks	**589,518**	133,429
(c) AFS investment securities		
At fair value:		
Government investment issues	**–**	122,012
Quasi government Sukuk	**–**	546,313
Sukuk	**–**	229,281
	–	897,606

The maturity structure of AFS investment securities are as follows:

	2018 RM'000	2017 RM'000
Maturing within one year	**–**	453,297
One to three years	**–**	282,364
Three to five years	**–**	96,649
More than five years	**–**	65,296
	–	897,606

The AFS investment securities category was removed upon adoption of MFRS 9. The financial effects of adoption of MFRS 9 are discussed in Note 3.

50 ISLAMIC OPERATIONS (CONTINUED)

NOTES TO ISLAMIC OPERATIONS (CONTINUED)

	Group	
	2018 RM'000	**2017 RM'000**
(d) Financial asset at FVOCI		
At fair value:		
Government investment issues	**157,397**	–
Islamic quasi government debt securities	**303,986**	–
Islamic debt securities	**140,316**	–
	601,699	–
The maturity structure of financial asset at FVOCI are as follows:		
Maturing within one year	**279,520**	–
One to three years	**199,394**	–
Three to five years	**112,761**	–
More than five years	**10,024**	–
	601,699	–

The financial asset at FVOCI category was introduced upon the adoption of MFRS 9 on 1 January 2018. Comparative figures are not restated in line with the transition requirement under MFRS 9. The financial effects of adoption of MFRS 9 are discussed in Note 3.

For financial asset at FVOCI, all balances are within stage 1 allocation (12-months ECL) as at 31 December 2018. There is no ECL made for this category of asset as at 31 December 2018 as the impact is immaterial.

	Group	
	2018 RM'000	**2017 RM'000**
(e) Financing assets		
House financing	**9,474,562**	5,434,616
Hire purchase financing	**–**	–
Personal financing	**18,896**	109,762
	9,493,458	5,544,378

50 ISLAMIC OPERATIONS (CONTINUED)

NOTES TO ISLAMIC OPERATIONS (CONTINUED)

	Group	
	2018 **RM'000**	**2017** **RM'000**
(e) Financing assets (continued)		
The maturity structure of financing assets are as follows:		
Maturing within one year	**1,298,515**	1,708,434
One to three years	**4,269,044**	2,594,787
Three to five years	**3,926,485**	1,241,157
	9,494,044	5,544,378
Less:		
Allowance for impairment losses	**(586)**	–
	9,493,458	5,544,378
(f) Mortgage assets		
PWOR	**7,854,370**	8,462,093
The maturity structure of mortgage assets are as follows:		
Maturing within one year	**1,016,941**	1,025,878
One to three years	**1,629,676**	1,496,829
Three to five years	**1,434,230**	1,473,059
More than five years	**4,688,274**	5,521,364
	8,769,121	9,517,130
Less:		
Unaccreted discount	**(878,662)**	(1,013,003)
Allowance for impairment losses	**(36,089)**	(42,034)
	7,854,370	8,462,093

50 ISLAMIC OPERATIONS (CONTINUED)

NOTES TO ISLAMIC OPERATIONS (CONTINUED)

(f) Mortgage assets (continued)

As at 31 December 2018, the gross carrying value of mortgage assets by stage of allocation upon adoption of MFRS 9 effective 1 January 2018 are as follows:

	Gross carrying value 2018 RM'000	Impairment allowance 2018 RM'000
By stage of allocation:		
Stage 1 (12-months ECL; non credit impaired)	**8,681,947**	**10,939**
Stage 2 (Lifetime ECL; non credit impaired)	**12,076**	**1,119**
Stage 3 (Lifetime ECL; credit impaired)	**75,098**	**24,031**
At 31 December	**8,769,121**	**36,089**
Impairment allowance over gross carrying value (%)		**0.41**

The impairment allowance by stage allocation and movement in impairment allowances that reflects the ECL model on impairment are as follows:

	Group			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
At 1 January				
– as previously stated				**42,021**
– effect of adoption of MFRS 9				**(557)**
As restated	**11,602**	**5,175**	**24,687**	**41,464**
Transfer between stages:				
– Transfer to 12 months ECL (Stage1)	**11,458**	**(1,050)**	**(10,408)**	**–**
– Transfer to ECL non credit impaired (Stage 2)	**(4,103)**	**5,231**	**(1,128)**	**–**
– Transfer to ECL credit impaired (Stage 3)	**(9,735)**	**(54)**	**9,789**	**–**
Total transfer between stages	**(2,380)**	**4,127**	**(1,747)**	**–**
Financing derecognised during the period (other than write-offs)	**(214)**	**(368)**	**(2,837)**	**(3,419)**
Allowance/(reversal) during the year due to changes in credit risk	**1,931**	**(7,815)**	**3,963**	**(1,921)**
Amount written off	**–**	**–**	**(35)**	**(35)**
At 31 December	**10,939**	**1,119**	**24,031**	**36,089**

50 ISLAMIC OPERATIONS (CONTINUED)

NOTES TO ISLAMIC OPERATIONS (CONTINUED)

(g) Hire purchase

	Group 2018 RM'000	Group 2017 RM'000
PWOR	**287**	457

The maturity structure of hire purchase assets are as follows:

	Group 2018 RM'000	Group 2017 RM'000
Maturing within one year	**301**	474
One to three years	**–**	45
	301	519
Less:		
Allowance for impairment losses	**(14)**	(62)
	287	457

As at 31 December 2018, the gross carrying value of Islamic hire purchase assets by stage of allocation upon adoption of MFRS 9 effective 1 January 2018 are as follows:

	Gross carrying value 2018 RM'000	Impairment allowance 2018 RM'000
By stage of allocation:		
Stage 1 (12-months ECL; non credit impaired)	**246**	**–**
Stage 2 (Lifetime ECL; non credit impaired)	**–**	**–**
Stage 3 (Lifetime ECL; credit impaired)	**55**	**14**
At 31 December	**301**	**14**
Impairment allowance over gross carrying value (%)		**4.7**

50 ISLAMIC OPERATIONS (CONTINUED)

NOTES TO ISLAMIC OPERATIONS (CONTINUED)

(g) Hire purchase (continued)

The impairment allowance by stage allocation and movement in impairment allowances that reflects the ECL model on impairment are as follows:

	Group			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
At 1 January				
– as previously stated				**75**
– effect of adoption of MFRS 9				**(56)**
As restated	**1**	**–**	**18**	**19**
Financing derecognised during the period (other than write-offs)	**(1)**	**–**	**(4)**	**(5)**
At 31 December	**–**	**–**	**14**	**14**

	Group	
	2018 RM'000	**2017 RM'000**
(h) Sukuk		
Medium-term notes	**14,808,472**	11,597,878
The maturity structures of Sukuk are as follows:		
Maturing within one year	**2,156,534**	2,011,864
One to three years	**5,266,938**	3,456,014
Three to five years	**4,645,000**	2,395,000
More than five years	**2,740,000**	3,735,000
	14,808,472	11,597,878

50 ISLAMIC OPERATIONS (CONTINUED)

NOTES TO ISLAMIC OPERATIONS (CONTINUED)

	Group	
	2018 RM'000	**2017 RM'000**
(i) IRMBS		
IRMBS	**1,261,353**	1,261,353
The maturity structures of the IRMBS are as follows:		
Maturing within one year	**251,353**	6,353
One to three years	**400,000**	645,000
Three to five years	**320,000**	320,000
More than five years	**290,000**	290,000
	1,261,353	1,261,353
(j) Other liabilities		
Zakat	**1,584**	927
Other payables	**9,166**	17,880
Expected credit loss on Wakalah exposure	**1,440**	–
	12,190	18,807

Expected credit loss on Wakalah exposure

As at 31 December 2018, the unexpired financial Wakalah exposure by stage of allocation upon adoption of MFRS 9 effective 1 January 2018 are as follows:

	Unexpired financial Wakalah exposure 2018 RM'000	**Impairment allowance 2018 RM'000**
By stage of allocation:		
Stage 1 (12-months ECL; non credit impaired)	**101,423**	**682**
Stage 2 (Lifetime ECL; non credit impaired)	**862**	**319**
Stage 3 (Lifetime ECL; credit impaired)	**439**	**439**
At 31 December	**102,724**	**1,440**
Impairment allowance over unexpired financial Wakalah exposure (%)		**1.4**

50 ISLAMIC OPERATIONS (CONTINUED)

NOTES TO ISLAMIC OPERATIONS (CONTINUED)

(j) Other liabilities (continued)

Expected credit loss on Wakalah exposure (continued)

The impairment allowance by stage allocation and movement in impairment allowances that reflects the ECL model on impairment are as follows:

	Group			
	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
At 1 January				
– as previously stated				**–**
– effect of adoption of MFRS 9				**683**
As at 1 January 2018, as restated	**325**	**157**	**201**	**683**
Transfer between stages:				
– Transfer to 12 months ECL (Stage 1)	**193**	**(156)**	**(37)**	**–**
– Transfer to ECL non credit impaired (Stage 2)	**(9)**	**23**	**(14)**	**–**
– Transfer to ECL credit impaired (Stage 3)	**(3)**	**(6)**	**9**	**–**
Total transfer between stages	**181**	**(139)**	**(42)**	**–**
Allowance during the year on new Wakalah fee	**355**	**151**	**98**	**604**
Wakalah amount derecognised during the period	**(2)**	**–**	**–**	**(2)**
(Reversal)/allowance during the year due to changes in credit risk	**(177)**	**150**	**182**	**155**
At 31 December	**682**	**319**	**439**	**1,440**

	Group	
	2018 RM'000	**2017 RM'000**
(k) Income attributable to the Sukuk holders		
Mortgage assets	**339,193**	367,044
Financing assets	**321,839**	205,712
Hire purchase assets	**214**	251
	661,246	573,007
Income attributable to the Sukuk holders analysed by concept:		
Bai Al-Dayn	**604,387**	497,498
Musyarakah	**56,859**	75,509
	661,246	573,007

50 ISLAMIC OPERATIONS (CONTINUED)

NOTES TO ISLAMIC OPERATIONS (CONTINUED)

	Group	
	2018 **RM'000**	**2017** **RM'000**
(l) Total net income		
Income from:		
Mortgage assets	**147,262**	170,035
Hire purchase assets	**30**	(213)
Financing assets	**18,726**	18,196
AFS investment securities	**–**	25,944
Financial asset at FVOCI	**38,992**	–
Deposits and placements with financial institutions	**15,423**	22,269
Wakalah fee	**3,653**	2,946
Non-profit expense	**(5,253)**	(5,966)
	218,833	233,211

Total net income analysed by concept are as follows:

Bai Al-Dayn	**160,766**	182,051
Mudharabah	**11,409**	6,452
Bai Bithaman Ajil	**2,650**	2,708
Murabahah	**29,830**	31,301
Musyarakah	**5,575**	5,571
Wadiah Yad Dhamanah	**1,527**	29
Wakalah	**6,018**	4,539
Ijarah	**210**	560
Qard Al-Hassan	**848**	–
	218,833	233,211

50 ISLAMIC OPERATIONS (CONTINUED)

NOTES TO ISLAMIC OPERATIONS (CONTINUED)

(m) Capital adequacy

	Group	
	2018 **%**	**2017** **%**
Regulatory capital		
Before deducting interim dividend*		
CET I capital ratio	**37.9**	42.9
Tier I capital ratio	**37.9**	42.9
Total capital ratio	**39.7**	45.3
After deducting interim dividend*		
CET I capital ratio	**37.9**	42.9
Tier I capital ratio	**37.9**	42.9
Total capital ratio	**39.7**	45.3

	Group	
Components of CET I, Tier I and Tier II capital:	**2018** **RM'000**	**2017** **RM'000**
CET I/Tier I capital:		
Allocated capital funds	**294,159**	294,159
Other reserves	**2,220,668**	2,057,160
	2,514,827	2,351,319
Financial asset designated as FVOCI	**201**	–
AFS investment securities	**–**	339
Deferred tax assets	**(15,637)**	–
Less: Regulatory reserves**	**(76,013)**	(83,655)
Total CET I/Tier I capital	**2,423,378**	2,268,003
Tier II capital:		
Allowance for impairment losses	**36,738**	43,165
Add: Regulatory reserves **	**76,013**	83,655
Total Tier II capital	**112,751**	126,820
Total capital	**2,536,129**	2,394,823

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

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

50 ISLAMIC OPERATIONS (CONTINUED)

NOTES TO ISLAMIC OPERATIONS (CONTINUED)

(m) Capital adequacy (continued)

Regulatory capital (continued)

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

	Group	
	2018 RM'000	**2017 RM'000**
Credit risk	**5,956,712**	4,845,364
Operational risk	**430,281**	445,079
Total risk-weighted assets	**6,386,993**	5,290,443

Proforma regulatory excluding CMBS

	Group	
	2018 %**	**2017** %**
Before deducting interim dividend*		
CET I capital ratio	**21.8**	25.9
Tier I capital ratio	**21.8**	25.9
Total capital ratio	**23.6**	28.5
After deducting interim dividend*		
CET I capital ratio	**21.8**	25.9
Tier I capital ratio	**21.8**	25.9
Total capital ratio	**23.6**	28.5

	Group	
	2018 RM'000	**2017 RM'000**
CET I/Tier I capital:		
Allocated capital funds	**294,159**	294,159
Other reserves	**996,077**	911,685
	1,290,236	1,205,844
Financial asset at FVOCI	**218**	–
AFS reserves	**–**	138
Deferred tax assets	**(12,673)**	–
Less: Regulatory reserves ***	**(76,013)**	(83,655)
Total CET I/Tier I capital	**1,201,768**	1,122,327

* refers to proposed interim dividends which are 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

50 ISLAMIC OPERATIONS (CONTINUED)

NOTES TO ISLAMIC OPERATIONS (CONTINUED)

(m) Capital adequacy (continued)

Proforma regulatory capital excluding CMBS (continued)

	Group	
	2018 RM'000**	**2017** RM'000**
Tier II capital:		
Allowance for impairment losses	**24,903**	30,259
Add: Regulatory reserves ***	**76,013**	83,655
Total Tier II capital	**100,916**	113,914
Total capital	**1,302,684**	1,236,241

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

	2018** RM'000	2017** RM'000
Credit risk	**5,266,756**	4,068,142
Operational risk	**244,577**	267,200
Total risk-weighted assets	**5,511,333**	4,335,342

** excludes CMBS's risk-weighted assets and total capital
**** comprise qualifying regulatory reserves for non-impaired financing of Cagamas*

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.

(n) 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.

51 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a 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 100 to 221 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 2018 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

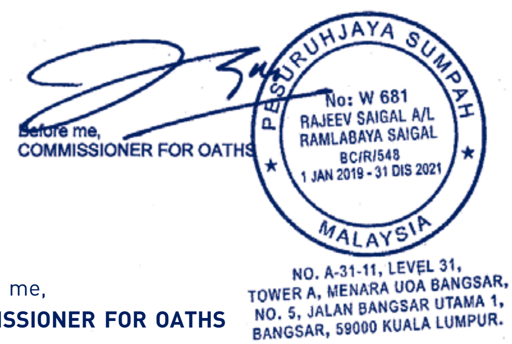
Statutory Declaration

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

I, Datuk Chung Chee Leong, the Officer primarily responsible for the financial management of Cagamas Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 100 to 221 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 19 March 2019.



Before me,
COMMISSIONER FOR OATHS

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 2018, 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 statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements 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 100 to 221.

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 this auditors' report, and the 2018 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 of 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 obtained prior to the 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 Group and 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's and 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.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

ONG CHING CHUAN
02907/11/2019 J
Chartered Accountant

Kuala Lumpur
19 March 2019