CONTENTS

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 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The Group subsidiary companies are Cagamas Berhad ("Cagamas"), 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 purchase of mortgage loans, personal loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issuance of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.

The principal activities of CMBS consist of the purchases of mortgage assets and Islamic mortgage assets from the Government of Malaysia ("GOM") 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 My First Home Scheme ("Skim Rumah Pertamaku") initiated by the GOM.

The principal activities of CMGP are the provision of mortgage guarantee and mortgage indemnity business and other form of credit protection. On 12 December 2013, CMGP entered into a Business Transfer and Novation Agreement between CSRP and Cagamas for the transfer of its mortgage guarantee and mortgage indemnity business to CSRP with effect from 1 January 2014.

The principal activities of CSME consist of purchase of Small and Medium Entreprise (SME) loans and/or structured product transactions via cash or synthetic securitisations or combination of both and issuance of bonds to finance the purchase. In addition, CSME is a credit default swap ("bank swap") counterparty with a financial institution and an issuer of fixed-rate credit-linked notes in a synthetic securitisation transaction. CSME has remained dormant since 10 October 2012.

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

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit for the financial year	527,592	22,534

DIVIDENDS

The dividends paid by the Company since 31 December 2012 were as follows:

	RM'000
In respect of the financial year ended 31 December 2013:	
– a first interim dividend paid on 8 April 2013	16,875
– a second interim dividend paid on 25 October 2013	5,625
	22,500

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 a rating of AAP/P1 to the bonds, notes and Sukuk issued by the Group. Malaysian Rating Corporation Berhad ("MARC") has assigned ratings of AAA/AAAID and MARC-1/MARC -1ID the bonds, notes and Sukuk issued by the Group. Moody's Investors Service has also assigned a rating of A3 as Cagamas Berhad's long term local and foreign currency issuer rating. In addition, RAM and MARC have assigned ratings of AAA and AAA/AAAID/AAAIS respectively to the assets-backed Fixed Rate Serial Bonds and Sukuk Musyarakah issuance.

RELATED PARTY TRANSACTIONS

Most of the transactions of the Group involving mortgage loans, hire purchase and leasing debts, Islamic financing facilities as well as issuance of unsecured debt securities and Sukuk are done with various financial institutions including that of substantial shareholders of the Company.

DIRECTORS

The Directors who have held office during the financial year since the date of the last report are as follows:

Dato' Ooi Sang Kuang (Chairman)	
Datuk George Ratilal	
Dato' Charon Wardini Mokhzani	(Resigned on 4.11.2013)
Dato' Sri Abdul Wahid Omar	(Retired on 26.3.2013)
Datuk Abdul Farid Alias	(Appointed on 6.6.2013)
Tan Sri Dato' Sri Tay Ah Lek	
Cheah Tek Kuang	
Marzunisham bin Omar	
YM Tengku Dato' Zafrul bin Tengku Abdul Aziz	(Appointed on 10.2.2014)

In accordance with Articles 19.13 and 19.14 of the Company's Articles of Association, Datuk George Ratilal and Mr. Marzunisham bin Omar retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Articles 19.10 of the Company's Articles of Association, Datuk Abdul Farid Alias and YM Tengku Dato' Zafrul bin Tengku Abdul Aziz who vacate office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Group and the Company is a party, being arrangements with the object or objects of enabling the Directors of the Group and the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Group and the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration as disclosed in Note 34 to the financial statements) by reason of a contract made by the Company or 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.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

According to the register of Directors' shareholdings, 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 shares, options over shares and debentures of its related corporations during the financial year.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statement and statement of financial positions of the Group and the Company were made out, 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 all known bad debts had been 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, their values as shown in the accounting records of the Group and the Company had been written down to an amount which they 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.

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

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

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

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

At 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's operations 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.

AUDITOR

Our auditor, PricewaterhouseCoopers, has expressed their willingness to continue in office.

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

DATO' OOI SANG KUANG
CHAIRMAN

TAN SRI DATO' SRI TAY AH LEK
DIRECTOR

Statement of Financial Position
As at 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
ASSETS					
Cash and short-term funds	5	1,263,965	710,969	564	790
Deposits and placements with financial institutions	6	851,692	365,349	723	542
Derivative financial instruments	7	7,286	1,115	–	–
Available-for-sale investment securities	8	2,583,486	2,150,695	–	–
Amount due from counterparties	9	3,825,726	3,696,142	–	–
Islamic financing assets	10	6,107,933	8,076,861	–	–
Mortgage assets					
– Conventional	11	11,064,322	9,659,351	–	–
– Islamic	12	10,648,208	7,124,273	–	–
Hire purchase assets					
– Conventional	13	4	9	–	–
– Islamic	14	11,196	15,937	–	–
Other assets	15	30,132	36,171	–	89
Property and equipment	16	4,019	4,363	–	–
Intangible assets	17	9,873	9,552	–	–
Deferred taxation	18	11,993	12,688	–	–
Tax recoverable		159	175	159	12
Investment in subsidiaries	19	–	–	4,185,663	4,185,663
TOTAL ASSETS		36,419,994	31,863,650	4,187,109	4,187,096
LIABILITIES					
Unsecured bearer bonds and notes	22	11,521,708	9,217,450	–	–
Sukuk	23	13,403,003	11,707,559	–	–
Derivative financial instruments	7	35,898	53,741	–	–
Residential mortgage-backed securities	24	3,195,347	3,195,295	–	–
Islamic residential mortgage-backed securities	25	2,865,314	2,865,314	–	–
Deferred guarantee fee income		1,685	1,038	–	–
Deferred Wakalah fee income		1,130	420	–	–
Deferred taxation	18	519,589	474,569	–	–
Provision for taxation		46,003	23,441	–	–
Other liabilities	26	65,550	63,079	–	21
TOTAL LIABILITIES		31,655,227	27,601,906	–	21
REPRESENTED BY:					
Share capital	27	150,000	150,000	150,000	150,000
Reserves	28	4,614,767	4,111,744	4,037,109	4,037,075
SHAREHOLDERS' FUNDS		4,764,767	4,261,744	4,187,109	4,187,075
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		36,419,994	31,863,650	4,187,109	4,187,096
NET TANGIBLE ASSETS PER SHARE (RM)	36	31.70	28.35	27.91	27.91

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

Income Statement
For the Financial Year Ended 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Interest income	29	1,057,273	1,005,229	41	43
Interest expense	30	(592,397)	(625,996)	–	–
Income from Islamic operations	48	286,077	198,748	–	–
Non-interest (expense)/income	31	(3,203)	1,469	30,005	132,502
		747,750	579,450	30,046	132,545
Administration and general expenses		(21,048)	(21,008)	(1)	(90)
Personnel cost		(20,840)	(18,376)	–	–
Share of profit in a joint venture company	21	–	1,127	–	–
OPERATING PROFIT		705,862	541,193	30,045	132,455
Purchased goodwill written off	19	–	142	–	–
(Allowance)/writeback of impairment losses	32	(2,702)	10,577	–	–
PROFIT BEFORE TAXATION AND ZAKAT	33	703,160	551,912	30,045	132,455
Zakat		(2,029)	(1,118)	–	–
Taxation	35	(173,539)	(137,634)	(7,511)	(33,147)
PROFIT FOR THE FINANCIAL YEAR		527,592*	413,160*	22,534	99,308
EARNINGS PER SHARE (SEN)	36	351.73	275.44	15.02	66.21
DIVIDEND PER SHARE (SEN)	37			15.00	30.00

* As set out in Note 49 to the financial statements, profit for the financial year of the Group includes profit from CMBS of RM203,014,000 (2012: RM190,071,000) that may be subject to a discretionary bonus fee to the GOM after full settlement of the RMBS/IRMBS.

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

Statement of Comprehensive Income
For the Financial Year Ended 31 December 2013

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit for the financial year	527,592	413,160	22,534	99,308
Other comprehensive (loss)/income:				
Items that may be subsequently reclassified to profit or loss				
Available-for-sale investment securities				
– Net loss on fair value changes before taxation	(26,678)	(1,945)	–	–
– Deferred taxation	6,669	486	–	–
Cash flow hedge				
– Net gain on cash flow hedge before taxation	23,920	5,425	–	–
– Deferred taxation	(5,980)	(1,357)	–	–
Share of other comprehensive income in a joint venture company	–	(20)	–	–
Other comprehensive (loss)/income for the financial year, net of taxation	(2,069)	2,589	–	–
Total comprehensive income for the financial year	525,523	415,749	22,534	99,308

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

Statement of Changes in Equity
For the Financial Year Ended 31 December 2013

		Issued and fully paid ordinary shares of RM1 each	Non-distributable				Distributable		
Group **RM'000**	**Note**	**Share capital**	**Share premium relief reserve**	**Reverse acquisition relief reserve**	**AFS reserve**	**Cash flow hedge reserve**	**Retained earnings**	**Other reserves ***	**Total**
Balance as at 1 January 2013		150,000	3,831,628	(3,831,628)	5,844	(36,629)	2,325,238	1,817,291	4,261,744
Profit for the financial year		–	–	–	–	–	527,592	–	527,592
Other comprehensive (loss)/income		–	–	–	(20,009)	17,940	–	–	(2,069)
Total comprehensive (loss)/income for the financial year		–	–	–	(20,009)	17,940	527,592	–	525,523
Transfer to share reserve		–	–	–	–	–	(203,014)	203,014	–
First interim dividends in respect of the financial year ended 31 December 2013	37	–	–	–	–	–	(16,875)	–	(16,875)
Second interim dividends in respect of the financial year ended 31 December 2013	37	–	–	–	–	–	(5,625)	–	(5,625)
Balance as at 31 December 2013	27 & 28	150,000	3,831,628	(3,831,628)	(14,165)	(18,689)	2,627,316	2,020,305	4,764,767

* As set out in Note 49 to the financial statements, other reserves relate to retained profits of CMBS that may be subject to a discretionary bonus fee to the GOM after the full settlement of the RMBS/IRMBS.

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

Statement of Changes in Equity
For the Financial Year Ended 31 December 2013 (continued)

Group		Issued and fully paid ordinary shares of RM1 each	Non-distributable				Distributable		
RM'000	Note	Share capital	Share premium relief reserve	Reverse acquisition relief reserve	AFS reserve	Cash flow hedge reserve	Retained earnings	Other reserves *	Total
Balance as at 1 January 2012		150,000	3,831,628	(3,831,628)	7,323	(40,697)	2,147,149	1,627,220	3,890,995
Profit for the financial year		–	–	–	–	–	413,160	–	413,160
Other comprehensive (loss)/income		–	–	–	(1,459)	4,068	–	–	2,609
Share of other comprehensive loss in a joint venture company		–	–	–	(20)	–	–	–	(20)
Total comprehensive (loss)/income for the financial year		–	–	–	(1,479)	4,068	413,160	–	415,749
Transfer to share reserve		–	–	–	–	–	(190,071)	190,071	–
First interim dividends in respect of the financial year ended 31 December 2012	37	–	–	–	–	–	(16,875)	–	(16,875)
Second interim and special dividends in respect of the financial year ended 31 December 2012	37	–	–	–	–	–	(28,125)	–	(28,125)
Balance as at 31 December 2012	27 & 28	150,000	3,831,628	(3,831,628)	5,844	(36,629)	2,325,238	1,817,291	4,261,744

* As set out in Note 49 to the financial statements, other reserves relate to retained profits of CMBS that may be subject to a discretionary bonus fee to the GOM after the full settlement of the RMBS/IRMBS.

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

Statement of Changes in Equity
For the Financial Year Ended 31 December 2013 (continued)

Company RM'000	Note	Issued and fully paid ordinary shares RM1 each Share capital	Non-Distributable Share premium relief reserves	Distributable Retained profits	Total
Balance as at 1 January 2013		150,000	3,831,628	205,447	4,187,075
Profit for the financial year		–	–	22,534	22,534
Other comprehensive income		–	–	–	–
Total comprehensive income for the financial year		–	–	22,534	22,534
First interim dividends in respect of financial year ended 31 December 2013	37	–	–	(16,875)	(16,875)
Second interim dividends in respect of financial year ended 31 December 2013	37	–	–	(5,625)	(5,625)
Balance as at 31 December 2013	27 & 28	150,000	3,831,628	205,481	4,187,109
Balance as at 1 January 2012		150,000	3,831,628	151,139	4,132,767
Profit for the financial year		–	–	99,308	99,308
Other comprehensive income		–	–	–	–
Total comprehensive income for the financial year		–	–	99,308	99,308
Special dividends in respect of financial year ended 31 December 2012	37	–	–	(22,500)	(22,500)
First interim dividends in respect of financial year ended 31 December 2012	37	–	–	(16,875)	(16,875)
Second interim dividends in respect of financial year ended 31 December 2012	37	–	–	(5,625)	(5,625)
Balance as at 31 December 2012	27 & 28	150,000	3,831,628	205,447	4,187,075

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

Statement of Cash Flows
For the Financial Year Ended 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
OPERATING ACTIVITIES					
Profit for the financial year		527,592	413,160	22,534	99,308
Adjustments for investment items and items not involving the movement of cash and cash equivalents:					
Amortisation of premium less accretion of discount on available-for-sale investment securities		(8,671)	(2,031)	–	–
Amortisation of premium less accretion of discount on Islamic debt securities		–	(2,968)	–	–
Accretion of discount on mortgage assets – Conventional		(283,510)	(266,879)	–	–
Accretion of discount on mortgage assets - Islamic		(160,730)	(150,790)	–	–
Accretion of discount on hire purchase assets – Conventional		–	(1)	–	–
Accretion of discount on hire purchase assets – Islamic		(363)	(485)	–	–
Income from Islamic debt securities		–	(96)	–	–
Interest income		(735,369)	(712,366)	–	–
Income from Islamic operations		(720,714)	(625,059)	–	–
Interest expense		592,397	625,996	–	–
Profit attributable to Sukuk holders		614,551	588,034	–	–
Guarantee fee income		(151)	(161)	–	–
Wakalah fee (income)/expense		(155)	51	–	–
Management fee		–	(500)	–	(500)
Depreciation of property and equipment		1,148	1,065	–	–
Amortisation of intangible assets		2,132	2,508	–	–
Gain on disposal of property and equipment		(14)	(112)	–	–
Gain on disposal of available-for-sale investment securities		(2,623)	(4,159)	–	–
Writeback/(allowance) for impairment losses on mortgage and Islamic mortgage assets		2,702	(10,578)	–	–
Purchased goodwill written off		–	(142)	–	–
Share of profit in a joint venture company		–	(1,127)	–	–
Taxation		181,040	170,634	7,511	33,147
Zakat		2,029	1,118	–	–
Operating profit before working capital changes		11,291	25,112	30,045	131,955

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
(Increase)/decrease in amount due from counterparties		(129,876)	605,546	–	–
Decrease/(increase) in Islamic financing assets		1,963,777	(1,190,455)	–	–
(Increase)/decrease in mortgage assets – Conventional		(1,067,749)	1,048,214	–	–
(Increase)/decrease in mortgage assets – Islamic		(3,291,423)	455,529	–	–
Decrease in hire purchase assets – Conventional		6	382	–	–
Decrease in hire purchase assets – Islamic		5,706	6,186	–	–
Decrease/(increase) in other assets		1,431	(5,346)	89	(88)
Increase/(decrease) in unsecured bearer bonds and notes		2,295,000	(645,000)	–	–
Increase in Sukuk		1,690,000	1,111,265	–	–
Increase/(decrease) in residential mortgage-backed securities		104	(649,971)	–	–
Decrease in Islamic residential mortgage-backed securities		–	(519,968)	–	–
Increase/(decrease) in other liabilities		1,481	397	(21)	13
Cash generated from operating activities		1,479,748	241,891	30,113	131,880
Profit received from Islamic assets		649,705	629,374	–	–
Guarantee fee paid		(8)	(13)	–	–
Wakalah fee received/(paid)		1,673	(102)	–	–
Management fee received		–	500	–	500
Fee income received		–	711	–	–
Interest received		640,796	761,223	–	–
Interest paid		(583,191)	(629,078)	–	–
Profit attributable to Sukuk holders		(609,109)	(574,723)	–	–
Payment of zakat		(1,119)	(2,260)	–	–
Payment of taxation		(112,058)	(117,607)	(7,658)	(33,159)
Net cash generated from operating activities		1,466,437	309,916	22,455	99,221

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
INVESTING ACTIVITIES					
Purchase of available-for-sale investment securities		(3,814,129)	(4,431,501)	–	–
Sale of available-for-sale investment securities		3,363,715	4,389,587	–	–
Derivative financial instruments		(94)	(225)	–	–
Purchase of property and equipment		(804)	(1,121)	–	–
Purchase of intangible assets		(2,453)	(264)	–	–
Investment in a subsidiary, net of cash acquired		–	18,668	–	(54,035)
Proceeds received from disposal of property and equipment		14	111	–	–
Income received from available-for-sale investment securities		49,153	33,439	–	–
Income received from Islamic debt securities		–	95	–	–
Net cash (utilised in)/generated from investing activities		(404,598)	8,789	–	(54,035)
FINANCING ACTIVITY					
Payment of dividends		(22,500)	(45,000)	(22,500)	(45,000)
Net cash utilised in financing activity		(22,500)	(45,000)	(22,500)	(45,000)
Net increase/(decrease) in cash and cash equivalents		1,039,339	273,705	(45)	186
Cash and cash equivalents as at beginning of the financial year		1,076,318	802,613	1,332	1,146
Cash and cash equivalents as at end of the financial year		2,115,657	1,076,318	1,287	1,332
Analysis of cash and cash equivalents:					
Cash and short-term funds	5	1,263,965	710,969	564	790
Deposits and placements with financial institutions	6	851,692	365,349	723	542
		2,115,657	1,076,318	1,287	1,332

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

1. GENERAL INFORMATION

The principal activities of the Company is investment holding.

The Group subsidiary companies are Cagamas Berhad ("Cagamas"), 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 purchase of mortgage loans, personal loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issuance of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.

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The principal activities of CMGP are the provision of mortgage guarantee and mortgage indemnity business and other form of credit protection. On 12 December 2013, CMGP entered into a Business Transfer and Novation Agreement between CSRP and Cagamas for the transfer of its mortgage guarantee and mortgage indemnity business to CSRP with effect from 1 January 2014.

The principal activities of CSME consist of purchase of Small and Medium Enterprise (SME) loans and/or structured product transactions via cash or synthetic securitisations or combination of both and issuance of bonds to finance the purchase. In addition, CSME is a credit default swap ("bank swap") counterparty with a financial institution and an issuer of fixed-rate credit-linked notes synthetic securitisation transaction. CSME has remained dormant since 10 October 2012.

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

The addresses 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 Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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 accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ.

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

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

The new accounting standards, amendments and improvements to published standards and interpretation that are effective for the Group and the Company's financial year beginning on or after 1 July 2012 and 1 January 2013 are as follows:

- MFRS 10, "Consolidated Financial Statements"
- MFRS 11, "Joint Arrangements"
- MFRS 12, "Disclosures of Interest in Other Entities"
- MFRS 13, "Fair Value Measurement"
- The revised MFRS 127, "Separate Financial Statements"
- The revised MFRS 128, "Investments in Associates and Joint Ventures"
- Amendments to MFRS 101, "Presentation of Items of Other Comprehensive Income"
- Amendments to MFRS 119, "Employee Benefits"
- Amendments to MFRS 7, "Financial Instruments: Disclosure"
- Amendments to MFRS 10, 11 & 12, "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance"
- Annual improvements 2009-2011 Cycle
- IC Interpretation 20, "Stripping costs in the production phase of a surface mine"

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

The Group and the Company will apply the new standards, amendments to standards and interpretation in the following periods:

- Amendment to MFRS 132 “Financial statements: Presentation” (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting crtieria.

  There is no significant impact arising from the initial application of this standard.

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):

The Group and the Company will apply the new standards, amendments to standards and interpretation in the following periods (continued):

- MFRS 9 "Financial instruments - Classification and Measurement of Financial Assets and Financial Liabilities" (effective no earlier than annual periods beginning on or after 1 January 2017) replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments.

  MFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised costs. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments.

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

  The Group and the Company have yet to assess MFRS 9's full impact. The Group and the Company will also consider the impact of the remaining phases of MFRS 9 when completed by the Malaysian Accounting Standard Board ("MASB").

2.2 Economic entities in the Group

(a) 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. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

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

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";

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Economic entities in the Group (continued)

(a) Subsidiaries (continued)

- 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.

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

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 liabilties 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 liabilitiy resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

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

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

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

(b) Joint venture company ("JV")

The Group's interest in a previous JV was accounted for in the financial statements by the equity method of accounting. Under the equity method of accounting, interests in the previous JV was initially recognised at cost and adjusted thereafter to recognised the group's share of the post-acquisition profits or losses and movements in other comprehensive income and its share of post-acquisition movements in reserves.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Structured Entity

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

The Group has set up Cagamas SME Berhad ("CSME") and BNM Sukuk Berhad ("BNM Sukuk") as structured entities for the purpose of asset securitisation transactions and the facilitation of BNM's management of the Islamic banking sector's liquidity respectively.

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

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

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

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

The Group has not consolidated BNM Sukuk as it does not have control over the entity. The Group merely acts as a facilitator for the issuance of Sukuk BNM Ijarah to finance the purchase of beneficial interest of land and building from BNM and thereafter, to lease back the same land and building to BNM.

CSME is consolidated with effect from the current financial year following the expiry of the trustee's power upon the maturity of CSME's sole securitisation transaction in 2013. Arising from the expiry of the trustee's power, the Group is now able to exercise control over the entity.

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 assets. These activities are also set out in the object clauses of the Memorandum of Association of the Company.

As at the statement of financial position date, amounts due from counterparties/Islamic financing assets in respect of mortgage loans, personal loans and hire purchase and leasing assets 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 term of the assets using the internal rate of return method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Available-for-sale ("AFS") investment securities

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

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

AFS investment securities are carried at fair value on the statement of financial position with the 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 and losses arising from changes in fair value previously recognised in equity, are credited or charged to the current year's income statement.

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

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

2.7 Investment in subsidiaries and structured entities

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

2.8 Property and equipment and depreciation

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

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

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

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 derecognised. 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. The Group's accounting policy on impairment of non-financial assets is reflected in Note 2.9 (b) to the financial statements.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit/(loss) from operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of assets

(a) Financial assets

(i) Assets carried at amortised cost

The Group assesses at each statement of financial position date whether there is objective evidence that an asset is impaired. An asset 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 asset 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 through the use of an allowance account 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 occuring 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.

(ii) Assets classified as AFS

The Group assesses at the end of each 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 occuring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(b) Non-financial assets

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

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

Interest income for conventional assets and profit income on Islamic assets are recognised using the effective interest/profit rate method. Accretion of discount is recognised using the internal rate of return method. Guarantee and Wakalah fee income are recognised upon the issuance of the guarantee, based on the straight line method.

2.11 Premium and discount on unsecured bearer bonds, notes and 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)

2.12 Current and deferred tax

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

Deferred taxation 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 taxation 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 taxation 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 taxation asset is realised or the deferred taxation liability is settled.

2.13 Cash and cash equivalents

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

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.15 Segment reporting

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

2.16 Derivative financial instruments and hedge accounting

Interest rate swaps ("IRS")/Islamic profit rate swaps ("IPRS") are used by the Group to hedge the issuance of its debt securities/Sukuk from potential movements in interest/profit rates. Further details of the IRS/IPRS are disclosed in Note 7 to the financial statements.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Derivative financial instruments and hedge accounting (continued)

Cash flow hedge

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

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

2.17 Provisions

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

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

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

2.18 Zakat

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

The Group and the Company recognises its obligations towards the payment of zakat on business. Zakat for the current period is recognised when the Group and the Company has a current zakat obligation as a result of a zakat assessment. The amount of zakat expenses shall be assessed when the Group and the Company 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% (2012: 2.5%) of the zakat base. The zakat base of the Company is determined based on the the profit after tax of each company within the group 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 year in which it is incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 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. 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.

2.20 Intangible assets

(a) Computer software

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

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

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

(b) Service rights to transaction administrator and administrator fees

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

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

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

2.21 RMBS and IRMBS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Share capital

(a) Classification

Ordinary shares 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 shareholders of the Company

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

2.23 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.

2.24 Financial instruments

(a) Description

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

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

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

b) Fair value estimation for disclosure purposes

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

(a) Fair value of derivatives and AFS investment securities

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

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

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

(c) 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.

The Group consolidates a structured entity if the assessment of the relevant factors indicates that the Group has control over it.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(d) Discretionary bonus fee

The discretionary bonus fee to be paid to the GOM is determined by CMBS by reference to guidelines, criteria and performance indicators deemed appropriate by CMBS. This is based on the performance by the GOM in discharging its servicing responsibilities until the point where the RMBS and/or IRMBS have been fully redeemed and all obligations and liabilities of CMBS in respect of the RMBS/IRMBS have been discharged.

4. RISK MANAGEMENT OBJECTIVE 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 has streamlined risk management according to its business activities, and enhanced key controls to ensure effectiveness of risk management and its independence from risk taking activities.

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

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

4.2 Credit risk management

Credit risk is the possibility that a borrower or counterparty fails to fulfil its financial obligations when they fall due. Credit risk arises in on balance sheet items such as lending and investments, and in off balance sheet items from 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 financings to be purchased. The Group has in place an internal rating system which sets out the maximum credit limit permissible for each category of rating. The credit limits are reviewed periodically and are determined based on a combination of external ratings, internal credit assessment and business requirements. All credit exposures are monitored on a regular basis and non-compliance is independently reported to management and the Board of Directors for immediate remedy.

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

4. RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

4.3 Market risk management

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

The Group controls its market risk exposure by imposing threshold limits. The limits are set based on the Group's risk appetite and the risk-return relationship. These limits are regularly reviewed and monitored. An asset liability management system which provides tools such as duration gap analysis, interest sensitivity analysis and income simulation is used to monitor the interest/profit rate risk.

The Group also uses derivative instruments such as interest/profit rate swaps to manage and hedge market risk exposures against fluctuations in the interest/profit rates.

4.4 Liquidity risk management

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

The Group mitigates its liquidity risk by matching the timing of purchases of loans and debts with issuance of debt securities 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 markets.

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 flow, duration and tenure of the funding;

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

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

5. CASH AND SHORT-TERM FUNDS

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cash and balances with banks and other financial institutions	50,728	51,282	20	11
Money at call and deposits placements maturing within one month	1,158,100	565,368	544	779
Mudharabah money at call and deposits placements maturing within one month	55,137	94,319	–	–
	1,263,965	710,969	564	790

6. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed banks	851,692	365,349	723	542

7. DERIVATIVE FINANCIAL INSTRUMENTS

IRS/IPRS are used as hedging tools to support the issuance of fixed rate bonds to fund floating rate purchases of mortgage loans. By entering into IRS/IPRS, the Group is protected from adverse movements in interest/profit rates since the Group pays the floating rate receipts from its floating rate purchases to and receives fixed rate payments from the swap counterparties. These fixed rate payments will then be utilised to pay interest/profit on the fixed rate bonds issued.

The IRS/IPRS are also used to hedge the Group's issuance of debt securities/Sukuk in a rising interest rate environment. In the first leg of the transaction, the Group pays fixed rate interest/profit and receives floating rate payments from the swap counterparties. On issuance of the debt securities, the Group enters into the IRS/IPRS transaction by taking an opposite position for the same amounts as in the first leg of the transaction. The IRS/IPRS protects the Group in a rising interest/profit rate environment since the Group will be receiving higher fixed rate as compared to the higher fixed rate that the Group is required to pay to the bondholders/Sukuk holders.

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

(a) Cash flow hedges

The Group has designated a number of IRS/IPRS as cash flow hedges during the financial year. The total fair value of derivatives included within cash flow hedges at 31 December 2013 was a credit of RM28.6 million (2012: RM52.6 million).

(b) Fair value hedges

At present, the Group does not designate any derivatives as fair value hedges.

(c) Net investment hedges

At present, the Group does not designate any derivatives as net investment hedges.

All derivatives financial instruments are held for economic hedging purposes. However, not all derivatives are designated as hedge instruments under the terms of MFRS 139. The analysis below splits derivatives between those in accounting hedge relationships and those not in accounting hedge relationships.

	2013			2012		
	Contract/ notional	Fair value		Contract/ notional	Fair value	
Group	**amount**	**Assets**	**Liabilities**	**amount**	**Assets**	**Liabilities**
RM '000						
Derivatives designated as cash flow hedge:						
IRS/IPRS	910,000	7,286	(35,898)	910,000	1,115	(53,741)

The remaining terms and notional principal amounts of the outstanding IRS/IPRS are as follows:

	Group	
	2013 RM'000	**2012 RM'000**
Three to five years	800,000	500,000
More than five years	110,000	410,000
	910,000	910,000

8. AVAILABLE-FOR-SALE ("AFS") INVESTMENT SECURITIES

	Group 2013 RM'000	2012 RM'000
At fair value:		
Malaysian government securities	459,968	322,318
Private debt securities	404,367	265,580
Malaysian government investment issues	430,070	578,956
BNM Sukuk	–	99,764
Islamic debt securities	570,638	428,180
Negotiable instruments of deposits	83,680	236,033
Quasi government debt securities	132,361	206,056
Islamic quasi government securities	458,040	13,808
Islamic negotiable instruments of deposits	44,362	–
	2,583,486	2,150,695

The maturity structure of AFS investment securities are as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	625,269	656,497
One year to three years	871,957	718,899
Three years to five years	733,351	536,212
More than five years	352,909	239,087
	2,583,486	2,150,695

9. AMOUNT DUE FROM COUNTERPARTIES

	2013 RM'000	2012 RM'000
Relating to:		
Mortgage loans	2,623,920	2,706,802
Hire purchase and leasing assets	364,866	116,299
Personal loans	836,940	873,041
	3,825,726	3,696,142

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

	2013 RM'000	2012 RM'000
Maturing within one year	1,459,899	131,335
One year to three years	1,266,347	1,464,210
Three years to five years	1,099,480	2,100,597
	3,825,726	3 ,696,142

10. ISLAMIC FINANCING ASSETS

	Group 2013 RM'000	Group 2012 RM'000
Relating to:		
Islamic house financing	1,457,958	1,063,445
Islamic hire purchase	3,649,680	4,034,911
Islamic personal financing	1,000,295	2,978,505
	6,107,933	8,076,861

The maturity structure of Islamic financing assets are as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	707,743	2,619,653
One year to three years	3,478,802	3,002,670
Three years to five years	1,921,388	2,454,538
	6,107,933	8,076,861

11. MORTGAGE ASSETS – CONVENTIONAL

	2013 RM'000	2012 RM'000
PWOR	11,064,322	9,659,351

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

	2013 RM'000	2012 RM'000
Maturing within one year	1,544,469	1,663,485
One year to three years	2,133,924	1,979,075
Three years to five years	2,011,058	1,829,453
More than five years	7,456,469	6,295,342
	13,145,920	11,767,355
Less:		
Unaccreted discounts	(2,022,933)	(2,048,045)
Allowance for impairment losses	(58,665)	(59,959)
	11,064,322	9,659,351

12. MORTGAGE ASSETS – ISLAMIC

	Group 2013 RM'000	Group 2012 RM'000
PWOR	10,648,208	7,124,273

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

	2013 RM'000	2012 RM'000
Maturing within one year	1,035,431	957,786
One year to three years	1,461,906	1,112,566
Three years to five years	1,518,588	1,105,016
More than five years	8,368,936	5,358,972
	12,384,861	8,534,340
Less:		
Unaccreted discounts	(1,693,892)	(1,371,313)
Allowance for impairment losses	(42,761)	(38,754)
	10,648,208	7,124,273

13. HIRE PURCHASE ASSETS – CONVENTIONAL

	2013 RM'000	2012 RM'000
PWOR	4	9

The maturity structure of the hire purchase assets - conventional are as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	5	11
	5	11
Less:		
Allowance for impairment losses	(1)	(2)
	4	9

14. HIRE PURCHASE ASSETS - ISLAMIC

	Group 2013 RM'000	Group 2012 RM'000
PWOR	11,196	15,937

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

	2013 RM'000	2012 RM'000
Maturing within one year	6,177	6,613
One year to three years	4,783	8,091
Three years to five years	761	1,894
More than five years	–	83
	11,721	16,681
Less:		
Unaccreted discounts	(458)	(668)
Allowance for impairment losses	(67)	(76)
	11,196	15,937

15. OTHER ASSETS

	Group		Company	
	2013 RM '000	2012 RM '000	2013 RM '000	2012 RM '000
Mortgage assets repurchased	24,186	29,900	–	–
Staff loans and financing	2,580	2,918	–	–
Deposits	802	772	–	–
Prepayments	1,896	2,035	–	–
Prepaid mortgage guarantee fee	2	3	–	–
Prepaid wakalah fee	–	1	–	–
Other receivables	666	542	–	89
	30,132	36,171	–	89

16. PROPERTY AND EQUIPMENT

Group RM'000	Office equipment	Furniture and fittings	Motor vehicles	Total
Cost				
As at 1 January 2013	4,901	4,562	598	10,061
Additions	704	5	95	804
Disposals	(925)	–	(66)	(991)
As at 31 December 2013	4,680	4,567	627	9,874
Accumulated Depreciation				
As at 1 January 2013	(3,824)	(1,744)	(130)	(5,698)
Charge for the year	(573)	(454)	(121)	(1,148)
Disposals	925	–	66	991
As at 31 December 2013	(3,472)	(2,198)	(185)	(5,855)
Net book value as at 31 December 2013	1,208	2,369	442	4,019
Cost				
As at 1 January 2012	4,432	4,555	517	9,504
Additions	588	7	526	1,121
Disposals	(119)	–	(445)	(564)
As at 31 December 2012	4,901	4,562	598	10,061
Accumulated Depreciation				
As at 1 January 2012	(3,387)	(1,292)	(514)	(5,193)
Charge for the year	(552)	(452)	(61)	(1,065)
Disposals	115	–	445	560
As at 31 December 2012	(3,824)	(1,744)	(130)	(5,698)
Net book value as at 31 December 2012	1,077	2,818	468	4,363

17. INTANGIBLE ASSETS

Group RM'000	Service rights	Computer software	Licenses	Total
Cost				
As at 1 January 2013	16,717	11,994	1,152	29,863
Additions	–	47	2,406	2,453
As at 31 December 2013	16,717	12,041	3,558	32,316
Accumulated Amortisation				
As at 1 January 2013	(8,910)	(10,520)	(881)	(20,311)
Charge for the year	(1,168)	(747)	(217)	(2,132)
As at 31 December 2013	(10,078)	(11,267)	(1,098)	(22,443)
Net book value as at 31 December 2013	6,639	774	2,460	9,873
Cost				
As at 1 January 2012	16,717	11,869	1,013	29,599
Additions	–	121	143	264
Reclassifications	–	4	(4)	–
As at 31 December 2012	16,717	11,994	1,152	29,863
Accumulated Amortisation				
As at 1 January 2012	(7,706)	(9,212)	(885)	(17,803)
Charge for the year	(1,204)	(1,122)	(182)	(2,508)
Reclassifications	–	(186)	186	–
As at 31 December 2012	(8,910)	(10,520)	(881)	(20,311)
Net book value as at 31 December 2012	7,807	1,474	271	9,552

Service rights are amortised on a straight line basis over the tenure of RMBS/IRMBS. The remaining amortisation period of the intangible assets ranges from 1 to 14 years (2012: 2 to 15 years).

18. DEFERRED TAXATION

Deferred taxation 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 relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position.

	Group		Company	
RM'000	**2013**	**2012**	**2013**	**2012**
Deferred taxation assets (before offsetting)	11,993	12,688	–	–
Deferred taxation liabilities (before offsetting)	(519,589)	(474,569)	–	–
Deferred taxation liabilities	(507,596)	(461,881)	–	–

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

Group RM '000	**Balance as at 1 January**	**Recognised in income statement**	**Recognised in reserves**	**Balance as at 31 December**
2013				
Deferred taxation assets/(liabilities)				
Accelerated tax depreciation	(3,360)	1,694	–	(1,666)
Unaccreted discount on mortgage assets	(468,810)	(48,841)	–	(517,651)
Revaluation of AFS investment securities	(1,883)	–	6,669	4,786
Unrealised losses on revaluation of IRS/IPRS under cash flow hedge accounting	12,211	–	(5,980)	6,231
Provisions	412	232	–	644
Deferred tax arising from acquisition of JV company	(118)	–	–	(118)
Temporary difference relating to guarantee/ Wakalah fees	36	352	–	388
Temporary difference relating to accrued interest on deposits and placements	(369)	159	–	(210)
	(461,881)	(46,404)	689	(507,596)
2012				
Deferred taxation assets/(liabilities)				
Accelerated tax depreciation	(4,003)	643	–	(3,360)
Unaccreted discount on mortgage assets	(423,048)	(45,762)	–	(468,810)
Revaluation of AFS investment securities	(2,385)	–	502	(1,883)
Unrealised losses on revaluation of IRS/IPRS under cash flow hedge accounting	13,568	–	(1,357)	12,211
Provisions	–	412	–	412
Deferred tax arising from acquisition of JV company	–	–	(118)	(118)
Temporary difference relating to guarantee/Wakalah fees	242	(177)	(29)	36
Temporary difference relating to accrued interest on deposits and placements	(103)	(62)	(204)	(369)
	(415,729)	(44,946)	(1,206)	(461,881)

There was no movement in deferred tax assets and liabilities of the Company during the current and previous financial year.

19. INVESTMENT IN SUBSIDIARIES

Company	2013 RM'000	2012 RM'000
Investment in subsidiaries		
Unquoted shares at cost	4,185,663	4,185,663

In the previous financial year, the Company acquired the remaining shares in a joint venture company, CMGP for a purchase consideration of RM54,035,414. The acquisition was completed on 20 December 2012 and it resulted in a gain as follows:

	2012 RM'000
Purchase consideration	54,035
Share of net assets acquired	(54,177)
Gain	(142)

The gain arising from the acquisition of CMGP was recognised in the income statement of the previous financial year.

The subsidiaries of the Company are as follows:

Name	Principal activities	Interest in equity held by the Company 2013	2012
Cagamas	Purchases of mortgage loans, personal loans and hire purchases and leasing assets from primary lenders approved by Cagamas and the issuance of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.	100%	100%
CMBS	Purchase of mortgage assets and Islamic mortgage assets from the GOM and issuance of RMBS and IRMBS to finance the purchase.	100%	100%
CSRP	Provision of mortgage guarantee and mortgage indemnity business and other form of credit protection in relation to My First Home Scheme ("Skim Rumah Pertamaku") initiated by the GOM.	100%	100%
CMGP	Provision of mortgage guarantee and mortgage indemnity business and other form of credit protection.	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. In addition, CSME is a credit default swap ("bank swap") counterparty with a financial institution and an issuer of fixed-rate credit-linked notes in a synthetic securitisation transaction. CSME has remained dormant since 10 October 2012.	100%	–

20. INVESTMENT IN STRUCTURED ENTITIES

Company	2013 RM'000	2012 RM'000
Investment in Structured Entities:		
Unquoted shares at cost	–*	–*

* denotes RM2 (2012: RM4)

The structured entities of the Company are as follows:

Name	Principal activities	Interest in equity held by the Company 2013	2012
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 buiding 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.	100%	100%
CSME	The principal activities of CSME consist of purchase of Small and Medium Enterprise (SME) loans and/or structured product transactions via cash or synthetic securitisations or combination of both and issuance of bonds to finance the purchase. In addition, CSME is a credit default swap ("bank swap") counterparty with a financial institution and an issuer of fixed-rate credit-linked notes in a synthetic securitisation transaction. CSME has remained dormant since 10 October 2012.	–	100%

The results and net assets of BNM Sukuk was 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.

The results and net assets of CSME were consolidated for the first time with effect from 2013, when control reverts to the Group following the expiry of the trustee's control upon the maturity of the entity's sole securitisation transaction.

21. INTEREST IN A JOINT VENTURE ("JV") COMPANY

Previously, the Company had a 50% interest in a joint venture ("JV"), Cagamas MGP Berhad ("CMGP"), which provide mortgage guarantee and mortgage indemnity business and other form of credit protection. CMGP became a fully-owned subsidiary of the Company with effect from 20 December 2012.

	2013 RM'000	2012 RM'000
Income	–	1,821
Expenses	–	(319)
Profit before taxation	–	1,502
Taxation and zakat	–	(375)
Profit after taxation	–	1,127

The above 50% share of the previous year's results of the JV were for the period up to 20 December 2012.

22. UNSECURED BEARER BONDS AND NOTES

Group		Year of maturity	2013 Amount outstanding RM'000	2013 Effective interest rate %	2012 Amount outstanding RM'000	2012 Effective interest rate %
(a)	Floating rate notes	2013	–	–	180,000	3.41
		2016	180,000	3.50	–	–
	Add: Interest payable		2,451		2,686	
			182,451		182,686	
(b)	Medium -term notes	2013	–	–	290,000	3.29 - 5.00
		2014	2,580,000	3.30 - 4.66	2,230,000	3.30 - 4.66
		2015	560,000	3.35 - 5.30	420,000	3.35 - 5.30
		2016	1,470,000	3.47 - 4.93	1,230,000	3.47 - 4.93
		2017	1,520,000	3.50 - 4.64	1,520,000	3.50 - 4.64
		2018	450,000	3.90 - 5.71	150,000	3.95 - 5.71
		2019	845,000	3.75 - 5.28	845,000	3.75 - 5.28
		2020	495,000	4.10 - 6.00	185,000	4.36 - 6.00
		2021	315,000	4.15 - 5.38	315,000	4.15 - 5.38
		2022	465,000	3.90 - 4.48	465,000	3.90 - 4.48
		2023	525,000	4.25 - 6.05	150,000	4.25 - 6.05
		2024	430,000	4.00 - 5.52	430,000	4.00 - 5.52
		2025	415,000	4.55 - 4.65	5,000	4.65
		2026	10,000	4.41	10,000	4.41
		2027	25,000	4.14 - 4.17	25,000	4.14 - 4.17
		2028	890,000	4.75 - 6.50	430,000	6.25 - 6.50
		2029	245,000	5.50 - 5.75	245,000	5.50 - 5.69
			11,240,000		8,945,000	
Add: Interest payable			99,257		89,764	
			11,339,257		9,034,764	
			11,521,708		9,217,450	

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

	2013 RM'000	2012 RM'000
Maturing within one year	2,681,708	562,450
One year to three years	2,210,000	2,650,000
Three years to five years	1,970,000	2,750,000
More than five years	4,660,000	3,255,000
	11,521,708	9,217,450

(a) Floating rate notes

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

(b) Short-term notes and medium-term notes

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

23. SUKUK

Group		Year of maturity	2013 Amount outstanding RM'000	2013 Effective profit rate %	2012 Amount outstanding RM'000	2012 Effective profit rate %
(a)	Islamic commercial papers	2013	–	–	500,000	3.21
		2014	500,000	3.30	–	–
	Add: Profit payable		271		264	
			500,271		500,264	
(b)	Islamic medium-term notes	2013	–	–	3,445,000	3.25 - 5.00
		2014	1,605,000	3.23 - 4.66	1,055,000	3.33 - 4.66
		2015	2,575,000	3.35 - 5.30	2,575,000	3.35 - 5.30
		2016	2,165,000	3.40 - 4.93	880,000	3.50 - 4.93
		2017	725,000	3.50 - 4.05	725,000	3.50 - 4.05
		2018	645,000	3.60 - 5.80	205,000	3.95 - 5.80
		2019	365,000	3.75 - 5.28	365,000	3.75 - 5.28
		2020	680,000	4.15 - 6.00	270,000	5.90 - 6.00
		2021	245,000	4.15 - 5.38	245,000	4.15 - 5.31
		2022	25,000	3.90 - 4.48	25,000	3.90 - 4.48
		2023	995,000	4.25 - 6.35	345,000	4.25 - 6.35
		2024	315,000	4.00 - 5.52	315,000	4.00 - 5.52
		2025	455,000	4.55 - 4.65	5,000	4.65
		2026	20,000	4.41 - 4.92	20,000	4.41 - 4.65
		2027	15,000	4.14	15,000	4.14
		2028	1,080,000	4.75 - 6.50	405,000	6.25 - 6.50
		2029	180,000	5.50 - 5.75	180,000	5.50 - 5.75
		2033	675,000	5.00	–	–
			12,765,000		11,075,000	
Add: Profit payable			137,732		132,295	
			12,902,732		11,207,295	
			13,403,003		11,707,559	

The maturity structure of the Sukuk are as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	2,243,003	4,077,559
One year to three years	4,740,000	3,630,000
Three years to five years	1,370,000	1,605,000
More than five years	5,050,000	2,395,000
	13,403,003	11,707,559

(a) Islamic commercial papers

Islamic commercial papers were issued by the Company based on various Islamic principles. These are short-term Islamic instruments with maturities ranging from 1 to 12 months and were issued at a discount or at par (coupon-bearing).

(b) Islamic medium-term notes

Islamic medium-term notes are long term papers issued by the Company based on various Islamic principles including Sukuk Alim and variable rate Sukuk Murabahah. These Sukuk have tenures of more than 1 year and carry a profit which is determined at the point of issuance. Profit on these Sukuk is paid half-yearly/quarterly depending on issuance.

24. RESIDENTIAL MORTGAGE-BACKED SECURITIES ("RMBS")

Group	Year of maturity	2013 Amount outstanding RM'000	2013 Effective interest rate %	2012 Amount outstanding RM'000	2012 Effective interest rate %
RMBS	2014	725,000	4.28 - 5.50	725,000	4.28 - 5.50
	2015	320,000	5.10	320,000	5.10
	2017	870,000	4.52 - 5.34	870,000	4.52 - 5.34
	2019	260,000	4.70	260,000	4.70
	2020	385,000	5.65	385,000	5.65
	2022	250,000	4.90	250,000	4.90
	2025	265,000	5.92	265,000	5.92
	2027	105,000	5.08	105,000	5.08
		3,180,000		3,180,000	
Add: Interest payable		15,347		15,295	
		3,195,347		3,195,295	

The maturity structure of the RMBS is as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	740,347	15,295
One year to three years	320,000	1,045,000
Three years to five years	870,000	870,000
More than five years	1,265,000	1,265,000
	3,195,347	3,195,295

The RMBS have the following features:

(a) The subsidiary 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 mortage assets.

25. ISLAMIC RESIDENTIAL MORTGAGE-BACKED SECURITIES ("IRMBS")

Group	Year of maturity	2013 Amount outstanding RM'000	2013 Effective profit rate %	2012 Amount outstanding RM'000	2012 Effective profit rate %
IRMBS	2014	270,000	3.78	270,000	3.78
	2015	515,000	4.71	515,000	4.71
	2017	810,000	3.90 - 5.01	810,000	3.90 - 5.01
	2019	245,000	4.02	245,000	4.02
	2020	400,000	5.27	400,000	5.27
	2022	320,000	4.17	320,000	4.17
	2027	290,000	4.34	290,000	4.34
		2,850,000		2,850,000	
Add: Profit attributable		15,314		15,314	
		2,865,314		2,865,314	

The maturity structure of the IRMBS is as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	285,314	15,314
One year to three years	515,000	785,000
Three years to five years	810,000	810,000
More than five years	1,255,000	1,255,000
	2,865,314	2,865,314

The IRMBS have the following features:

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

(b) The profit on IRMBS 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 mortgage assets, the related collections and the proceeds from the enforcement of other securities related to the mortage assets.

26. OTHER LIABILITIES

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Provision for zakat	2,029	1,119	–	–
Amount due to Government	50,478	50,847	–	–
Other payables	13,043	11,113	–	21
	65,550	63,079	–	21

27. SHARE CAPITAL

Group and Company

	2013 RM'000	2012 RM'000
Ordinary shares of RM1 each:		
Authorised: Balance as at beginning and end of the financial year	500,000	500,000
Issued and fully paid: Balance as at beginning and end of the financial year	150,000	150,000

28. RESERVES

(a) AFS reserves

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

(b) Cash flow hedge reserves

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

29. INTEREST INCOME

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Interest income from:				
Amount due from counterparties relating to:				
– Mortgage loans	167,239	178,368	–	–
– Hire purchase assets	228	449	–	–
Mortgage assets	499,265	468,427	–	–
Mortgage assets repurchased	963	972	–	–
AFS investment securities	67,784	63,828	–	–
Deposits and placements with financial institutions	37,981	28,666	41	43
	773,460	740,710	41	43
Accretion of discount less amortisation of premium (net)	283,813	264,519	–	–
	1,057,273	1,005,229	41	43

30. INTEREST EXPENSE

	Group	
	2013 RM'000	2012 RM'000
Interest expense on:		
Floating rate notes (FRNs)	6,553	7,226
Medium-term notes	424,888	435,456
RMBS	160,956	183,309
Deposits and placements of financial institutions	–	5
	592,397	625,996

31. NON-INTEREST (EXPENSE)/INCOME

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Realised net loss on derivatives	(9,462)	(8,798)	–	–
Other non-operating income	3,401	5,458	5	2
Gain on disposal of AFS investment securities	2,623	4,024	–	–
Gain on disposal of property and equipment	14	112	–	–
Guarantee fee income	221	173	–	–
Management fee income	–	500	–	500
Dividend income	–	–	30,000	132,000
	(3,203)	1,469	30,005	132,502

32. (ALLOWANCE)/WRITEBACK OF IMPAIRMENT LOSSES

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
(Allowance)/writeback of allowance for impairment losses	(2,702)	10,577	–	–

33. PROFIT BEFORE TAXATION AND ZAKAT

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
The following items have been charged/(credited) in arriving at profit before taxation and zakat:				
Directors' remuneration (Note 34)	1,372	1,587	–*	–*
Rental of premises	2,418	2,148	–	–
Hire of equipment	242	251	–	–
Auditor's remuneration				
– audit fees	277	237	–*	–*
Depreciation of property and equipment	1,148	1,065	–	–
Amortisation of intangible assets	2,132	2,508	–	–
Servicer fee	3,864	3,620	–	–
Repairs and maintenance	1,766	1,590	–	–
Donations and sponsorship	183	177	–	–
Corporate expenses	645	739	–	–
Travelling	(87)	248	–	–
Allowance/(writeback) of provision for impairment losses on mortgage and islamic mortgage loans	2,702	(10,577)	–	–
Gain on disposal of property and equipment	(14)	(112)	–	–
Personnel costs:				
Salary and allowances	11,166	10,261	–	–
Bonus	4,667	3,722	–	–
Overtime	56	61	–	–
Employees Provident Fund and SOCSO	2,553	2,298	–	–
Insurance	433	242	–	–

* Directors' remuneration of RM495,000 and auditor's remuneration of RM25,089 (2012: RM540,000 and RM21,019 respectively) for the Company in the financial year was borne by Cagamas Berhad.

34. DIRECTORS' REMUNERATION

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

Non-executive Directors:

Dato' Ooi Sang Kuang (Chairman)	
Datuk George Ratilal	
Dato' Charon Wardini Mokhzani	(Resigned on 4.11.2013)
Dato' Sri Abdul Wahid Omar	(Retired on 26.3.2013)
Datuk Abdul Farid Alias	(Appointed on 6.6.2013)
Tan Sri Dato' Sri Tay Ah Lek	
Cheah Tek Kuang	
Marzunisham bin Omar	
YM Tengku Dato' Zafrul bin Tengku Abdul Aziz	(Appointed on 10.2.2014)

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Fees	887	919	347	360
Other remuneration	485	668	148	180
	1,372	1,587	495	540

35. TAXATION

(a) Tax charge for the financial year

Current tax	127,135	92,688	7,511	33,147
Deferred taxation (Note 18)	46,404	44,946	–	–
	173,539	137,634	7,511	33,147
Current tax:				
Current year	127,409	92,642	7,511	33,135
(Over)/under provision in prior year	(274)	46	–	12
Deferred taxation:				
Origination and reversal of temporary differences	46,404	44,946	–	–
	173,539	137,634	7,511	33,147

35. TAXATION (CONTINUED)

(b) Reconciliation of income tax expense

The tax on the Group and the Company 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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit before taxation and zakat	703,160	551,912	30,045	132,455
Tax calculated at Malaysian tax rate of 25% (2012: 25%)	175,790	137,978	7,511	33,114
Expenses not deductible for tax purposes	559	339	–	21
Income not subject to tax	–	(317)	–	–
(Over)/under provision in prior year	(274)	46	–	12
Deduction arising from zakat contribution	(280)	(280)	–	–
Change in taxation basis	(234)	(132)	–	–
Amortisation of intangible assets not deductible	(2,022)	–	–	–
	173,539	137,634	7,511	33,147

36. NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM4,754,894,000 of the Group and RM4,187,109,000 of the Company respectively (2012: RM4,252,191,000 and RM4,187,075,000 for the Group and the Company respectively) by 150,000,000 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 RM527,592,000 of the Group and RM22,534,000 of the Company respectively (2012: RM413,160,000 of the Group and RM99,308,000 of the Company respectively) by 150,000,000 shares of the Group and the Company in issue. For the diluted earnings per share calculation, no adjustment has been made to the weighted number of ordinary shares in issue as there are no dilutive potential ordinary shares.

37. DIVIDENDS

	Company			
	2013		2012	
	Net per share sen	Amount of dividend net of tax RM'000	Net per share sen	Amount of dividend net of tax RM'000
Dividends paid are as follows:				
First interim dividend paid	11.25	16,875	11.25	16,875
Second interim dividend paid	3.75	5,625	–	–
Second interim and special dividend paid	–	–	18.75	28,125
	15.00	22,500	30.00	45,000

38 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties and relationships

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

Related parties	**Relationships**
Cagamas Berhad ("Cagamas")	Subsidiary
Cagamas MBS Berhad ("CMBS")	Subsidiary
Cagamas SRP Berhad ("CSRP")	Subsidiary
Cagamas MGP Berhad ("CMGP")	Subsidiary
Cagamas SME Berhad ("CSME")	Subsidiary
BNM Sukuk Berhad ("BNM Sukuk")	Structured entity

Bank Negara Malaysia ("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 either directly or indirectly. The key management personnel of the Company include all the Directors of the Group and its holding company, 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 assets and Islamic financing facilities as well as issuance of unsecured debt securities 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.

Set out below are significant related party transactions which were conducted in the normal course of business.

Group RM'000	**Subsidiary company**	**Previous JV**	**Wholly owned structured entities**	**BNM**
2013				
Income				
Transaction administrator and administrator fees	7,073	–	–	76
Expenses				
FAST* and RENTAS** charges	–	–	–	66
Guarantee and Wakalah fee expense	159	–	–	–
Amount due from				
Transaction administrator and administrator fees	751	–	–	–
BNM current accounts	–	–	–	31
Reimbursement of operating expenses	–	–	–	342

38. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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

Group RM'000	Subsidiary company	Previous JV	Wholly owned structured entities	BNM
2012				
Income				
Bank swap premium	–	–	419	–
Transaction administrator and administrator fees	7,808	–	124	77
Management fee	16	484	–	–
Expenses				
FAST* and RENTAS** charges	–	–	–	61
Guarantee and Wakalah fee expense	–	115	–	–
Amount due from				
Bank swap premium	–	–	146	–
Transaction administrator and administrator fees	829	–	–	–
BNM current accounts	–	–	–	29
Reimbursement of operating expenses	–	–	–	249

* Fully Automated System for Issuing and Tendering
** Real-Time Electronic Transfer of Funds and Securities

The amount due from subsidiaries are unsecured, interest free and repayable in arrears on each interest payment/profit distribution date.

In addition, 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 RM5,337,904 (2012: RM4,751,518).

The total remuneration paid to the Directors is disclosed in Note 34 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 entities controlled, jointly controlled or has significant influence by the GOM are related parties of the Company and the Group.

The Group enters into transactions with many of these entities to purchase mortgage loans, personal loans and hire purchase and leasing assets and issuance of bonds and notes to finance the purchase as part of its normal operations.

39. CAPITAL COMMITMENTS

	Group 2013 RM'000	Group 2012 RM'000
Capital expenditure:		
Authorised and contracted for	–	1,960
Authorised but not contracted for	7,793	1,567
Analysed as follows:		
Property and equipment	93	158
Computer equipments	7,700	3,369

40. LEASE COMMITMENTS

The Group has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the long-term commitments is as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	2,792	3,033
One year to three years	59	2,866
	2,851	5,899

41. MARKET RISK

41.1 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".

41. MARKET RISK (CONTINUED)

41.1 Interest/profit rate risk (continued)

Group

RM'000 2013	Within one year	One year to three years	Three years to five years	More than five years	Non-interest/ profit bearing	Total
Cash and short-term funds	1,213,318	–	–	–	50,647	1,263,965
Deposits and placements with financial institutions	851,692	–	–	–	–	851,692
AFS investment securities	625,269	871,958	733,351	352,908	–	2,583,486
Amount due from counterparties	1,459,899	1,266,347	1,099,480	–	–	3,825,726
Islamic financing assets	707,743	3,478,802	1,921,388	–	–	6,107,933
Mortgage assets:						
– Conventional	1,544,469	2,133,924	2,011,058	7,456,469	(2,081,598)	11,064,322
– Islamic	1,035,431	1,461,906	1,518,588	8,368,935	(1,736,652)	10,648,208
Hire purchase assets:						
– Conventional	5	–	–	–	(1)	4
– Islamic	6,177	4,783	761	–	(525)	11,196
Other assets	6,141	7,261	4,730	8,634	9,505	36,271
Total assets	7,450,144	9,224,981	7,289,356	16,186,946	(3,758,624)	36,392,803
Unsecured bearer bonds and notes	2,681,708	2,210,000	1,970,000	4,660,000	–	11,521,708
Sukuk	2,243,003	4,740,000	1,370,000	5,050,000	–	13,403,003
RMBS	740,347	320,000	870,000	1,265,000	–	3,195,347
IRMBS	285,314	515,000	810,000	1,255,000	–	2,865,314
Other liabilities	–	–	–	–	144,125	144,125
Total liabilities	5,950,372	7,785,000	5,020,000	12,230,000	144,125	31,129,497
Interest/profit sensitivity gap	1,499,772	1,439,981	2,269,356	3,956,946		
Cumulative gap	1,499,772	2,939,753	5,209,109	9,166,055		

41. MARKET RISK (CONTINUED)

41.1 Interest/profit rate risk (continued)

Group

RM'000 2012	Within one year	One year to three years	Three years to five years	More than five years	Non-interest/ profit bearing	Total
Cash and short-term funds	659,761	–	–	–	51,208	710,969
Deposits and placements with financial institutions	365,349	–	–	–	–	365,349
AFS investment securities	656,497	682,522	572,589	239,087	–	2,150,695
Amount due from counterparties	131,335	1,464,210	2,100,597	–	–	3,696,142
Islamic financing assets	2,619,653	3,002,670	2,454,538	–	–	8,076,861
Mortgage assets:						
– Conventional	1,663,485	1,979,075	1,829,453	6,295,342	(2,108,004)	9,659,351
– Islamic	957,787	1,112,566	1,105,016	5,358,972	(1,410,068)	7,124,273
Hire purchase assets:						
– Conventional	11	–	–	–	(2)	9
– Islamic	6,613	8,091	1,894	83	(744)	15,937
Other assets	6,944	9,037	6,010	10,881	3,169	36,041
Total assets	7,067,435	8,258,171	8,070,097	11,904,365	(3,464,441)	31,835,627
Unsecured bearer bonds and notes	562,450	2,650,000	2,750,000	3,255,000	–	9,217,450
Sukuk	4,077,559	3,630,000	1,605,000	2,395,000	–	11,707,559
RMBS	15,295	1,045,000	870,000	1,265,000	–	3,195,295
IRMBS	15,314	785,000	810,000	1,255,000	–	2,865,314
Other liabilities	–	–	–	–	112,578	112,578
Total liabilities	4,670,618	8,110,000	6,035,000	8,170,000	112,578	27,098,196
Interest/profit sensitivity gap	2,396,817	148,171	2,035,097	3,734,365		
Cumulative gap	2,396,817	2,544,988	4,580,085	8,314,450		

41. MARKET RISK (CONTINUED)

41.1 Interest/profit rate risk (continued)

The tables represents 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-balance sheet 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 on a different basis. The Group sets limits on the sensitivity of the Group's forecasted net interest income/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 debt securities/Sukuk to be issued to ensure that the Group's assets and liabilities are closely matched within the tolerance limit set by the Board.

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

Group **RM'000**	**-100 basis points**	**+100 basis points**
2013		
AFS reserve	75,955	(72,249)
IRS	(38,508)	36,466
Taxation effect on the above at tax rate of 25%	(9,266)	8,853
Effect on shareholders' funds	28,181	(26,930)
As percentage of shareholders' funds	0.6%	-0.6%
2012		
AFS reserve	(5,868)	3,636
IRS	47,507	(44,620)
Taxation effect on the above at tax rate of 25%	(10,409)	10,246
Effect on shareholders' funds	31,230	(30,738)
As percentage of shareholders' funds	0.7%	-0.7%

42. CREDIT RISK

42.1 Credit risk concentration

The Group's counterparties are mainly 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.

Group

RM'000	Cash and short-term funds	Deposits and placement with financial institutions	Derivatives financial instruments	AFS investment securities	Amount due from counter parties	Islamic financing assets	Mortgage assets - Conventional	Mortgage assets - Islamic	Hire purchase assets - Conventional	Hire purchase assets - Islamic	Other assets	Total
2013												
Government bodies	–	–	–	1,152,690	–	–	–	–	–	–	24,528	1,177,218
Quasi government bodies	–	–	–	23,828	–	–	–	–	–	–	–	23,828
Financial institutions:												
Commercial banks	1,063,789	851,692	7,286	469,501	3,460,859	6,107,933	–	–	–	–	–	11,961,060
Investment banks	200,176	–	–	–	–	–	–	–	–	–	–	200,176
Communications, electricity, gas and water	–	–	–	55,493	–	–	–	–	–	–	–	55,493
Transportation	–	–	–	233,265	–	–	–	–	–	–	–	233,265
Leasing	–	–	–	–	364,867	–	–	–	–	–	–	364,867
Consumer	–	–	–	–	–	–	11,064,322	10,648,208	4	11,196	–	21,723,730
Others	–	–	–	648,709	–	–	–	–	–	–	6,354	655,063
Total	1,263,965	851,692	7,286	2,583,486	3,825,726	6,107,933	11,064,322	10,648,208	4	11,196	30,882	36,394,700
2012												
Government bodies	–	–	–	1,112,715	–	–	–	–	–	–	30,149	1,142,864
Financial institutions:												
Commercial banks	710,969	365,349	1,115	455,790	3,579,842	8,076,861	–	–	–	–	146	13,190,072
Investment banks	–	–	–	–	–	–	–	–	–	–	–	–
Communications, electricity, gas and water	–	–	–	40,763	–	–	–	–	–	–	–	40,763
Transportation	–	–	–	107,091	–	–	–	–	–	–	–	107,091
Leasing	–	–	–	–	116,300	–	–	–	–	–	–	116,300
Consumer	–	–	–	–	–	–	9,659,351	7,124,273	9	15,937	–	16,799,570
Others	–	–	–	434,336	–	–	–	–	–	–	6,615	440,951
Total	710,969	365,349	1,115	2,150,695	3,696,142	8,076,861	9,659,351	7,124,273	9	15,937	36,910	31,837,611

42. CREDIT RISK (CONTINUED)

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

All mortgage assets and hire purchase assets are categorised as either:

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

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

Credit risk loans comprise amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets 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 RM'000	Neither past due nor impaired	Past due but not individually impaired	Total	Impairment allowance	Total carrying value	Credit risk loan	Coverage ratio
2013							**%**
Amount due from counterparties	3,825,726	–	3,825,726	–	3,825,726	–	–
Islamic financing assets	6,107,933	–	6,107,933	–	6,107,933	–	–
Mortgage assets:							
– Conventional	11,014,172	108,815	11,122,987	58,665	11,064,322	108,815	54
– Islamic	10,627,926	63,043	10,690,969	42,761	10,648,208	63,043	68
Hire purchase assets:							
– Conventional	1	4	5	1	4	4	25
– Islamic	11,101	162	11,263	67	11,196	162	41
	31,586,859	172,024	31,758,883	101,494	31,657,389	172,024	
2012							
Amount due from counterparties	3,696,142	–	3,696,142	–	3,696,142	–	–
Islamic financing assets	8,076,861	–	8,076,861	–	8,076,861	–	–
Mortgage assets:							
– Conventional	9,597,206	122,104	9,719,310	59,959	9,659,351	122,104	49
– Islamic	7,074,773	88,255	7,163,028	38,755	7,124,273	88,255	44
Hire purchase assets:							
– Conventional	5	6	11	2	9	6	33
– Islamic	15,861	152	16,013	76	15,937	152	50
	28,460,848	210,517	28,671,365	98,792	28,572,573	210,517	

42. CREDIT RISK (CONTINUED)

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

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

Group RM'000	2013 Strong	2013 Total	2012 Strong	2012 Total
Amount due from counterparties	3,825,726	3,825,726	3,696,142	3,696,142
Islamic financing assets	6,107,933	6,107,933	8,076,861	8,076,861
Mortgage assets:				
– Conventional	11,014,172	11,014,172	9,597,206	9,597,206
– Islamic	10,627,926	10,627,926	7,074,773	7,074,773
Hire purchase assets:				
– Conventional	1	1	5	5
– Islamic	11,101	11,101	15,861	15,861
	31,586,859	31,586,859	28,460,848	28,460,848

For the purpose of analysis of credit risk quality, the following internal measures of credit quality have been used:

Strong – there is a very high likelihood that the asset being recovered in full. This comprise amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets.

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

Group RM'000	91 to 120 days	121 to 150 days	151 to 180 days	Over 180 days	Total
2013					
Mortgage assets:					
– Conventional	8,305	7,278	6,814	86,418	108,815
– Islamic	6,281	4,125	4,519	48,118	63,043
Hire purchase assets:					
– Conventional	–	–	–	4	4
– Islamic	–	44	2	116	162
	14,586	11,447	11,335	134,656	172,024
2012					
Mortgage assets:					
– Conventional	16,029	12,049	10,196	83,830	122,104
– Islamic	9,060	10,829	6,712	61,654	88,255
Hire purchase assets:					
– Conventional	–	–	–	6	6
– Islamic	1	–	–	151	152
	25,090	22,878	16,908	145,641	210,517

42. CREDIT RISK (CONTINUED)

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

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 PWOR 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 2013, the Group has deemed it impracticable to disclose the financial effect of collateral for its mortgage assets and hire purchase assets.

The movement in impairment allowance during the financial year were as follows:

Group RM '000	Balance as at 1 January	Provision made	Writeback of provision	Balance as at 31 December
2013				
Mortgage assets:				
– Conventional	59,959	2,100	(3,394)	58,665
– Islamic	38,755	7,859	(3,853)	42,761
Hire purchase assets:				
– Conventional	2	–	(1)	1
– Islamic	76	33	(42)	67
	98,792	9,992	(7,290)	101,494
2012				
Mortgage assets:				
– Conventional	65,934	2,451	(8,426)	59,959
– Islamic	43,243	840	(5,328)	38,755
Hire purchase assets:				
– Conventional	16	–	(14)	2
– Islamic	176	22	(122)	76
	109,369	3,313	(13,890)	98,792

42. CREDIT RISK (CONTINUED)

42.3 AFS investment securities

AFS investment securities are measured on fair value basis. The Group mainly uses the ratings by external rating agencies, mainly RAM Rating Services Berhad ("RAM") and Malaysian Rating Corporation Berhad ("MARC"). The table below presents an analysis of AFS investment securities external ratings designation:

		Investment Grade		
Group **RM'000**	**GOM**	**AAA**	**AA1 to AA2**	**Total**
2013				
Malaysian government securities	459,968	–	–	459,968
Government-issued instruments	430,070	–	–	430,070
Private debt securities	–	161,575	242,792	404,367
Negotiable instruments of deposits	–	83,680	–	83,680
Islamic securities	–	570,638	–	570,638
Islamic negotiable instruments of deposits	–	–	44,362	44,362
Quasi debt securities	132,361	–	–	132,361
Islamic quasi government securities	458,040	–	–	458,040
	1,480,439	815,893	287,154	2,583,486
2012				
Malaysian government securities	322,318	–	–	322,318
Government-issued instruments	578,956	–	–	578,956
Private debt securities	–	209,531	56,049	265,580
Negotiable instruments of deposits	–	236,033	–	236,033
Islamic securities	–	428,180	–	428,180
BNM Sukuk	99,764	–	–	99,764
Quasi debt securities	206,056	–	–	206,056
Islamic quasi government securities	–	13,808	–	13,808
	1,207,094	887,552	56,049	2,150,695

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

42. CREDIT RISK (CONTINUED)

42.4 Offsetting financial instruments

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

Group	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	Related amounts not set off in the statement of financial position: Financial instrument RM'000	Related amounts not set off in the statement of financial position: Cash collateral placed RM'000	Net amount RM'000
2013						
Derivatives financial liabilities	(35,898)	–	(35,898)	–	26,100	(9,798)
2012						
Derivatives financial liabilities	(53,741)	–	(53,741)	–	43,960	(9,781)

43. LIQUIDITY RISK

43.1 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.

43.2 Liquidity pool

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

Group RM '000	Cash and deposit in licenced financial institutions	Derivative financial instruments	AFS investment securities	Mortgage assets	Islamic mortgage assets	Other available liquidity	Total
2013	2,115,657	7,286	2,583,486	11,064,322	10,648,208	9,973,844	36,392,803
2012	1,076,318	1,115	2,150,695	9,659,351	7,124,273	11,823,821	31,835,573

43. LIQUIDITY RISK (CONTINUED)

43.3 Contractual maturity of financial liabilities

The tables below present the cash flows payable by the Group under non-derivative financial liabilities 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.

Group RM'000	Remaining contractual maturities					
	On demand up to 1 month	One to three months	Three to twelve months	One to five years	Over five years	Total
2013						
Liabilities						
Unsecured bearer bonds and notes	13,804	200,689	2,864,305	5,528,860	5,907,831	14,515,489
Sukuk	47,901	755,627	1,854,742	7,551,832	6,872,957	17,083,059
RMBS	4,731	35,774	841,594	1,595,737	1,520,154	3,997,990
IRMBS	–	32,320	360,218	1,665,928	1,450,307	3,508,773
Unexpired financial guarantees	4,267	–	–	–	–	4,267
Other liabilities	14,884	–	–	–	–	14,884
Total liabilities	85,587	1,024,410	5,920,859	16,342,357	15,751,249	39,124,462
Assets held for managing liquidity risk	1,647,962	1,446,869	5,010,710	18,358,740	21,006,904	47,471,185
2012						
Liabilities						
Unsecured bearer bonds and notes	13,804	51,175	824,379	6,607,046	4,218,626	11,715,030
Sukuk	33,621	845,097	3,524,016	6,202,325	3,210,408	13,815,467
RMBS	4,731	35,392	120,782	2,410,591	1,587,399	4,158,895
IRMBS	20,597	31,959	95,504	2,001,607	1,507,166	3,656,833
Unexpired financial guarantees	3,266	–	–	–	–	3,266
Other liabilities	6,025	–	–	–	51,956	57,981
Total liabilities	82,044	963,623	4,564,681	17,221,569	10,575,555	33,407,472
Assets held for managing liquidity risk	1,199,839	993,052	4,867,368	17,567,731	15,892,862	40,520,852

43. LIQUIDITY RISK (CONTINUED)

43.4 Derivatives liabilities

The Group's derivatives comprise IRS/IPRS held by a subsidiary, for which net cash flows are exchanged, held for hedging purposes. The derivatives held by the subsidiary is settled on a net basis.

The following table analyses the subsidiaries' 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 RM'000	On demand up to 1 month	One to three months	Three to twelve months	One to five years	Over five years	Total
2013						
Derivatives held for hedging – IRS/IPRS	–	(4,767)	(4,453)	(17,976)	(4,159)	(31,355)
2012						
Derivatives held for hedging – IRS/IPRS	–	(4,896)	(5,246)	(34,059)	(14,536)	(58,737)

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

44.1 Fair value of financial instruments carried at fair value

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arms length transaction. The information presented herein represents the estimates of fair values as at the date of the statement of financial position.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market values 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 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 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 interest rate swaps/Islamic profit rate swap is based on the estimated future 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 counter party at the statement of financial position date.

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

44.1 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 RM'000	Level 1	Level 2	Level 3	Total
2013				
Aset				
AFS investment securities	–	2,583,486	–	2,583,486
Derivative financial instruments	–	7,286	–	7,286
Liabilities				
Derivative financial instruments	–	35,898	–	35,898
2012				
Assets				
AFS investment securities	–	2,150,695	–	2,150,695
Derivative financial instruments	–	1,115	–	1,115
Liabilities				
Derivative financial instruments	–	53,741	–	53,741

44.2 Fair value of financial instruments carried 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

The carrying amount of cash and short-term funds is 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.

(c) Other financial liabilities

Other financial liabilities include creditors and accruals. The fair value of other financial liabilities is estimated at their carrying amount.

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

Group RM'000	2013 Carrying value	2013 Fair value	2012 Carrying value	2012 Fair value
Assets				
Amount due from counterparties	3,825,726	3,623,966	3,696,142	3,658,310
Islamic financing assets	6,107,933	5,802,562	8,076,861	8,118,391
Mortgage assets:				
– Conventional	11,064,322	11,582,916	9,659,351	10,975,345
– Islamic	10,648,208	10,952,449	7,124,273	7,802,410
Hire purchase assets:				
– Conventional	4	4	9	3
– Islamic	11,196	11,210	15,937	17,826
	31,657,389	31,973,107	28,572,573	30,572,285
Liabilities				
Unsecured bearer bonds and notes	11,521,708	11,647,554	9,217,450	9,253,355
Sukuk	13,403,003	13,539,338	11,707,559	11,691,278
RMBS	3,195,347	3,292,623	3,195,295	3,377,904
IRMBS	2,865,314	2,886,628	2,865,314	2,963,803
	30,985,372	31,366,143	26,985,618	27,286,340

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 repricing 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 date of the statement of financial position 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 market yield to maturity at the date of the statement of financial position and, is therefore within Level 3 of the fair value hierarchy.

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

45. SEGMENT REPORTING

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

(a) Purchase With Recourse (“PWR”)

The PWR scheme consists of purchase of mortgage loans, personal loans, hire purchase and leasing assets 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) Purchase Without Recourse (“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.

Deferred guarantee and Wakalah fee income is initially recognised at fair value equal to the fees received on the date when the guarantee or Wakalah is given. Subsequently, they are measured at the higher of the amount of provisions determined in accordance with MFRS 137: "Provisions, Contingent Liabilities and Contingent Assets" and the intial fair value less cumulative amortisation.

(d) Securitisation

The Group purchased Small and Medium Enterprise ("SME") loans via cash or synthetic securitisations, or a combination of both and issued bonds to finance the purchase. Under the synthetic securitisation arrangements, the Group is a credit default swap counterparty with a financial institution and an issuer of fixed-rate credit-linked notes ("CLN").

CLNs are issued as part of the synthetic securitisation transaction involving the Group as Issuer, Senior Swap Counterparty (Cagamas Berhad), Originator (Malayan Banking Berhad) and the Guarantor (Credit Guarantee Corporation Malaysia Berhad) whereby Malayan Banking Berhad passed part of its credit risks in a portfolio of underlying SME loans to the Group, through the mechanism of a credit default swap.

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

45. SEGMENT REPORTING (CONTINUED)

GROUP RM '000	Purchase with recourse	Purchase without recourse	Mortgage guarantee	Securitisation	Total
2013					
External revenue	527,842	1,191,707	7,268	1	1,726,818
External interest/profit expense	(412,583)	(666,903)	–	–	(1,079,486)
Profit before taxation and zakat	82,182	613,322	7,656	–	703,160
Zakat	(1,898)	(131)	–	–	(2,029)
Taxation	(19,827)	(152,029)	(1,683)	–	(173,539)
Net profit by segment	60,457	461,162	5,973	–	527,592
Segment assets	10,810,551	25,387,906	221,525	12	36,419,994
Segment liabilities	9,277,195	22,374,485	3,535	12	31,655,227
Other information:					
Capital expenditure	1,277	1,980	–	–	3,257
Depreciation and amortisation	451	2,828	–	–	3,279
2012					
External revenue	505,701	1,047,728	3,572	–	1,557,001
External interest/profit expense	(396,566)	(679,466)	–	–	(1,076,032)
Profit before taxation and zakat	81,552	466,643	3,717	–	551,912
Zakat	(752)	(366)	–	–	(1,118)
Taxation	(20,047)	(116,420)	(1,167)	–	(137,634)
Net profit by segment	60,753	349,857	2,550	–	413,160
Segment assets	13,332,547	18,315,755	215,348	–	31,863,650
Segment liabilities	10,728,144	16,871,514	2,248	–	27,601,906
Other information:					
Capital expenditure	792	593	–	–	1,385
Depreciation and amortisation	1,355	2,217	–	–	3,572

46. ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE

ASSETS AND LIABILITIES

RM'000 2013	Cagamas Holdings Berhad and Cagamas	CMBS	CSRP	CMGP	CSME	Consolidation adjustments	Total
ASSETS							
Cash and short-term funds	593,520	569,596	32,901	67,936	12	–	1,263,965
Deposits and placements with financial institutions	723	811,078	26,894	12,997	–	–	851,692
Derivative financial instruments	7,286	–	–	–	–	–	7,286
AFS investment securities	1,587,058	916,227	49,594	30,607	–	–	2,583,486
Amounts due from counterparties	3,825,726	–	–	–	–	–	3,825,726
Islamic financing assets	6,107,933	–	–	–	–	–	6,107,933
Mortgage assets:							
– Conventional	7,846,587	3,217,735	–	–	–	–	11,064,322
– Islamic	7,582,923	3,065,285	–	–	–	–	10,648,208
Hire purchase assets:							
– Conventional	4	–	–	–	–	–	4
– Islamic	11,196	–	–	–	–	–	11,196
Amount due from structured entities	751	–	–	–	–	(751)	–
Other assets	9,788	20,344	–	–	–	–	30,132
Property and equipment	4,019	–	–	–	–	–	4,019
Intangible assets	9,873	–	–	–	–	–	9,873
Deferred taxation	8,930	–	596	–	–	2,467	11,993
Tax recoverable	159	–	–	–	–	–	159
Investment in subsidiaries	4,185,663	–	–	–	–	(4,185,663)	–
TOTAL ASSETS	31,782,139	8,600,265	109,985	111,540	12	(4,183,947)	36,419,994
LIABILITIES							
Unsecured bearer bonds and notes	11,521,708	–	–	–	–	–	11,521,708
Sukuk	13,403,003	–	–	–	–	–	13,403,003
Derivative financial instruments	35,898	–	–	–	–	–	35,898
RMBS	–	3,195,347	–	–	–	–	3,195,347
IRMBS	–	2,865,314	–	–	–	–	2,865,314
Deferred guarantee fee income	–	–	1,685	–	–	–	1,685
Deferred Wakalah fee income	–	–	1,130	–	–	–	1,130
Deferred taxation	–	516,948	–	173	–	2,468	519,589
Provision for taxation	41,940	3,628	160	275	–	–	46,003
Other liabilities	65,337	89	54	58	12	–	65,550
Amount due to a subsidiary/ related company	–	751	–	–	–	(751)	–
TOTAL LIABILITIES	25,067,886	6,582,077	3,029	506	12	1,717	31,655,227

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

ASSETS AND LIABILITIES (CONTINUED)

RM'000 2012	Cagamas Holdings Berhad and Cagamas	CMBS	CSRP	CMGP	CSME	Consolidation adjustments	Total
ASSETS							
Cash and short-term funds	371,729	248,400	46,384	44,456	–	–	710,969
Deposits and placements with financial institutions	542	302,793	33,767	28,247	–	–	365,349
Derivative financial instruments	1,115		–	–		–	1,115
AFS investment securities	1,165,983	922,381	26,300	36,031	–	–	2,150,695
Amounts due from counterparties	3,696,142	–	–	–	–	–	3,696,142
Islamic financing assets	8,076,861	–	–	–	–	–	8,076,861
Mortgage assets:							
– Conventional	6,093,780	3,565,571	–	–	–	–	9,659,351
– Islamic	3,828,813	3,295,460	–	–	–	–	7,124,273
Hire purchase assets:							
– Conventional	9	–	–	–	–	–	9
– Islamic	15,937	–	–	–	–	–	15,937
Amount due from structured entities	829	–	–	–	–	(829)	–
Other assets	11,142	25,029	–	–	–	–	36,171
Property and equipment	4,363	–	–	–	–	–	4,363
Intangible assets	9,552	–	–	–	–	–	9,552
Deferred taxation	12,622	–	1	65	–	–	12,688
Tax recoverable	12	–	–	163	–	–	175
Investment in subsidiary companies	4,185,663	–	–	–	–	(4,185,663)	–
TOTAL ASSETS	27,475,094	8,359,634	106,452	108,962	–	(4,186,492)	31,863,650
LIABILITIES							
Unsecured bearer bonds and notes	9,217,450	–	–	–	–	–	9,217,450
Sukuk	11,707,559	–	–	–	–	–	11,707,559
Derivative financial instruments	53,741	–	–	–	–	–	53,741
RMBS	–	3,195,295	–	–	–	–	3,195,295
IRMBS	–	2,865,314	–	–	–	–	2,865,314
Deferred guarantee fee income	–	–	1,035	3	–	–	1,038
Deferred Wakalah fee income	–	–	419	1	–	–	420
Deferred taxation	3,391	470,664	336	178	–	–	474,569
Provision for taxation	18,698	4,588	155	–	–	–	23,441
Other liabilities	62,793	97	68	121	–	–	63,079
Amount due to a subsidiary/ related company	–	829	–	–		(829)	–
TOTAL LIABILITIES	21,063,632	6,536,787	2,013	303	–	(829)	27,601,906

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

INCOME STATEMENTS

RM'000 2013	Cagamas Holdings Berhad and Cagamas	CMBS	CSRP	CMGP	CSME	Consolidation adjustments	Total
Interest income	721,636	328,368	3,640	3,628	1	–	1,057,273
Interest expense	(431,441)	(160,956)	–	–	–	–	(592,397)
Income from Islamic operations	181,882	107,279	113	181	–	(3,378)	286,077
Non-interest income/(expense)	30,260	–	213	8	11	(33,695)	(3,203)
	502,337	274,691	3,966	3,817	12	(37,073)	747,750
Administration and general expenses	(20,136)	(7,846)	(64)	(63)	(12)	7,073	(21,048)
Personnel costs	(20,840)	–	–	–	–	–	(20,840)
OPERATING PROFIT	461,361	266,845	3,902	3,754	–	(30,000)	705,862
(Allowance)/writeback of impairment losses	(6,536)	3,834	–	–	–	–	(2,702)
PROFIT BEFORE TAXATION AND ZAKAT	454,825	270,679	3,902	3,754	–	(30,000)	703,160
Zakat	(2,028)	–	–	(1)	–	–	(2,029)
Taxation	(111,691)	(67,665)	(743)	(940)	–	7,500	(173,539)
PROFIT FOR THE FINANCIAL YEAR	341,106	203,014	3,159	2,813	–	(22,500)	527,592

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

INCOME STATEMENTS (CONTINUED)

RM'000 2012	Cagamas Holdings Berhad and Cagamas	CMBS	CSRP	CMGP	CSME	Consolidation adjustments	Total
Interest income	662,603	339,054	3,454	118	–	–	1,005,229
Interest expense	(442,687)	(183,309)	–	–	–	–	(625,996)
Income from Islamic operations	101,412	100,902	61	2	–	(3,629)	198,748
Non-interest income/(expense)	137,475	–	173	–	–	(136,179)	1,469
	458,803	256,647	3,688	120	–	(139,808)	579,450
Administration and general expenses	(20,055)	(8,669)	(72)	(20)	–	7,808	(21,008)
Personnel costs	(18,376)	–	–	–	–	–	(18,376)
Share of profit in a JV company	–	–	–	–	–	1,127	1,127
OPERATING PROFIT	420,372	247,978	3,616	100	–	(130,873)	541,193
Purchased goodwill written off	–	–	–	–	–	142	142
Writeback of allowance for impairment losses	5,127	5,450	–	–	–	–	10,577
PROFIT BEFORE TAXATION AND ZAKAT	425,499	253,428	3,616	100	–	(130,731)	551,912
Zakat	(1,118)	–	–	–	–	–	(1,118)
Taxation	(106,110)	(63,356)	(1,143)	(25)	–	33,000	(137,634)
PROFIT FOR THE FINANCIAL YEAR	318,271	190,072	2,473	75	–	(97,731)	413,160

47. CAPITAL ADEQUACY

The Group 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 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 is not subject to the BNM 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 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.

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

	Group	
	2013	**2012**
Before deducting interim dividends*		
Common equity Tier I ("CET I") capital ratio	38.4%	38.6%
Tier I capital ratio	38.4%	38.6%
Total capital ratio	39.2%	39.4%
After deducting interim dividends*		
CET I capital ratio	38.3%	38.4%
Tier I capital ratio	38.3%	38.4%
Total capital ratio	39.0%	39.2%

** refers to interim dividends which have been declared after the financial year*

47. CAPITAL ADEQUACY (CONTINUED)

	Group 2013 RM'000	Group 2012 RM'000
Components of CET I, Tier I and Tier II capital:		
CET I/Tier I capital:		
Paid-up share capital	150,000	150,000
Retained profits	4,647,621	4,142,529
Deferred tax liability	507,596	461,881
Total CET I/Tier I capital	5,305,217	4,754,410
Tier II capital:		
Allowance for impairment losses	101,494	98,792
Total Tier II capital	101,494	98,792
Total capital	5,406,711	4,853,202

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

	Group 2013 RM'000	Group 2012 RM'000
Credit risk	12,645,740	11,166,036
Operational risk	1,159,657	1,161,556
Total risk-weighted assets	13,805,397	12,327,592

48. ISLAMIC OPERATIONS

Statement of Financial Position
As at 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000
ASSETS			
Cash and short-term funds	(a)	226,667	188,036
Deposits and placements with financial institutions	(b)	294,515	74,789
AFS investment securities	(c)	596,677	467,249
Derivative financial assets		7,286	1,115
Financing assets	(d)	6,107,933	8,076,861
Mortgage assets	(e)	10,639,438	7,115,616
Hire purchase assets	(f)	8,427	9,975
Deferred taxation		133	28
Other assets and prepayments		289,174	289,062
TOTAL ASSETS		18,170,250	16,222,731
LIABILITIES			
Sukuk	(g)	13,403,003	11,707,559
IRMBS	(h)	2,865,314	2,865,314
Deferred taxation		205,512	196,612
Provision for taxation		4,062	3,674
Other liabilities	(i)	39,090	11,538
TOTAL LIABILITIES		16,516,981	14,784,697
ISLAMIC OPERATIONS' FUNDS		1,653,269	1,438,034
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		18,170,250	16,222,731

48. ISLAMIC OPERATIONS (CONTINUED)

Income Statement
For the Financial Year Ended 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000
Total income attributable		900,628	787,092
Income attributable to the Sukuk holders	(j)	(614,551)	(588,344)
Total net income	(k)	286,077	198,748
Administration and general expenses		(3,198)	(2,537)
OPERATING PROFIT FROM ISLAMIC OPERATIONS		282,879	196,211
(Allowance)/writeback of impairment losses		(4,034)	4,484
		278,845	200,695
Zakat		(2,029)	(1,118)
Taxation		(63,041)	(50,184)
PROFIT FOR THE FINANCIAL YEAR		213,775	149,393

Statement of Comprehensive Income
For the Financial Year Ended 31 December 2013

	Group 2013 RM'000	Group 2012 RM'000
Profit for the financial year	213,775	149,393
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
AFS investment securities		
– Net (loss)/gain on fair value changes before taxation	(4,218)	173
– Deferred taxation	1,055	(43)
Cashflow hedge		
– Net gain on cashflow hedge before taxation	6,164	1,124
– Deferred taxation	(1,541)	(281)
Other comprehensive income for the financial year, net of taxation	1,460	973
Total comprehensive income for the financial year	215,235	150,366

48. ISLAMIC OPERATIONS (CONTINUED)

Statement of Changes in Islamic Operations' Funds
For the Financial Year Ended 31 December 2013

Group RM'000	Allocated capital funds	AFS reserve	Cash Flow hedge	Retained profits	Total
2013					
Balance as at 1 January 2013	294,159	2,578	843	1,140,454	1,438,034
Profit for the financial year	–	–	–	213,775	213,775
Other comprehensive (loss)/income	–	(3,163)	4,623	–	1,460
Total comprehensive income for the financial year	–	(3,163)	4,623	213,775	215,235
Balance as at 31 December 2013	294,159	(585)	5,466	1,354,229	1,653,269
2012					
Balance as at 1 January 2012	294,159	2,448	–	990,326	1,286,933
Profit for the financial year	–	–	–	149,393	149,393
Arising from consolidation of a previous JV				735	735
Other comprehensive income	–	130	843	–	973
Total comprehensive income for the financial year	–	130	843	150,128	151,101
Balance as at 31 December 2012	294,159	2,578	843	1,140,454	1,438,034

48. ISLAMIC OPERATIONS (CONTINUED)

Statement of Cash Flows
For the Financial Year Ended 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000
OPERATING ACTIVITIES			
Profit for the financial year		213,775	149,393
Adjustments for investment items and items not involving the movement of cash and cash equivalents:			
Accretion of discount on AFS investment securities		(1,608)	(5,028)
Accretion of discount on debt securities		(6,655)	(2,968)
Accretion of discount on mortgage assets		(160,730)	(150,790)
Accretion of discount on hire purchase assets		(222)	(233)
Income from debts securities		(362)	(171,617)
Income from operations		(883,516)	(458,213)
Profit attributable to Sukuk holders		742,014	588,033
Gain on disposal of AFS investment securities		–	(135)
Writeback/(allowance) on impairment losses on mortgage assets		4,034	(4,484)
Wakalah fee (income)/expense		(93)	91
Taxation		63,041	50,184
Zakat		2,029	1,118
Operating loss before working capital changes		(28,293)	(4,649)
Decrease/(increase) in financing assets		1,963,777	(1,190,454)
(Increase)/decrease in mortgage assets		(3,291,626)	465,858
Decrease in hire purchase assets		2,108	605
(Increase)/decrease in other assets and prepayments		(86)	142
Increase in Sukuk		1,690,000	1,111,265
Decrease in IRMBS		–	(517,484)
Increase/(decrease) in other liabilities		6,042	(2,322)
Cash generated from/(utilised in) operations		341,922	(137,039)
Income received from assets		813,050	627,649
Wakalah fee received		803	107
Profit paid to Sukuk holders		(736,571)	(577,207)
Payment of taxation		(34,478)	(26,751)
Payment of zakat		(1,118)	(2,260)
Net cash generated from/(utilised in) operating activities		383,608	(115,501)

48. ISLAMIC OPERATIONS (CONTINUED)

Statement of Cash Flow
For the Financial Year Ended 31 December 2013 (continued)

	Note	Group 2013 RM'000	Group 2012 RM'000
INVESTING ACTIVITIES			
Purchase of AFS investment securities		(2,135,303)	(1,505,542)
Sale of AFS investment securities		2,010,111	1,785,854
Derivative financial instruments		(8)	9
Income received from debt securities		(51)	96
Investment in subsidiary, net of cash acquired		–	813
Net cash (utilised in)/generated from investing activities		(125,251)	281,230
Net increase in cash and cash equivalents		258,357	165,729
Cash and cash equivalents as at beginning of the financial year		262,825	97,096
Cash and cash equivalents as at end of the financial year		521,182	262,825
Analysis of cash and cash equivalents:			
Cash and short-term funds	(a)	226,667	188,036
Deposits and placements with financial institutions	(b)	294,515	74,789
		521,182	262,825

(a) CASH AND SHORT-TERM FUNDS

	2013 RM'000	2012 RM'000
Cash and bank balances with banks and other financial institutions	90	82
Mudharabah money at call and deposit placements maturing within one month	226,577	187,954
	226,667	188,036

(b) DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2013 RM'000	2012 RM'000
Licensed banks	294,515	74,789

48. ISLAMIC OPERATIONS (CONTINUED)

(c) AFS INVESTMENT SECURITIES

	Group 2013 RM'000	Group 2012 RM'000
At fair value:		
Malaysian government investment issues	243,903	266,512
Debt securities	267,019	87,165
Negotiable instrument of deposits	44,362	–
Malaysian treasury bills	–	99,764
Quasi government debt securities	41,393	13,808
	596,677	467,249

The maturity structure of AFS investment securities is as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	275,312	169,142
One year to three years	165,210	142,035
Three years to five years	132,759	70,506
More than five years	23,396	85,566
	596,677	467,249

(d) FINANCING ASSETS

	2013 RM'000	2012 RM'000
House financing	1,457,958	1,063,445
Hire purchase	3,649,680	4,034,911
Personnel financing	1,000,295	2,978,505
	6,107,933	8,076,861

The maturity structure of financing assets is as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	707,743	2,619,653
One year to three years	3,478,802	3,002,670
Three years to five years	1,921,388	2,454,538
	6,107,933	8,076,861

48. ISLAMIC OPERATIONS (CONTINUED)

(e) MORTGAGE ASSETS

	Group 2013 RM'000	Group 2012 RM'000
PWOR	10,639,438	7,115,616

The maturity structure of mortgage assets is as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	1,033,936	956,696
One year to three years	1,459,736	1,110,608
Three years to five years	1,516,713	1,103,236
More than five years	8,365,690	5,355,126
	12,376,075	8,525,666
Less: Unaccreted discount	(1,693,892)	(1,371,313)
Allowance for impairment losses	(42,745)	(38,737)
	10,639,438	7,115,616

(f) HIRE PURCHASE ASSETS

	2013 RM'000	2012 RM'000
PWOR	8,427	9,975

The maturity structure of hire purchase assets is as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	3,529	3,448
One year to three years	4,562	5,016
Three years to five years	760	1,894
More than five years	–	83
	8,851	10,441
Less: Unaccreted discount	(375)	(445)
Allowance for impairment losses	(49)	(21)
	8,427	9,975

48. ISLAMIC OPERATIONS (CONTINUED)

(g) SUKUK

	Group 2013 RM'000	Group 2012 RM'000
Medium-term notes	12,902,732	11,207,295
Commercial papers	500,271	500,264
	13,403,003	11,707,559

The maturity structure of Sukuk is as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	2,243,003	4,077,559
One year to three years	4,740,000	3,630,000
Three years to five years	1,370,000	1,605,000
More than five years	5,050,000	2,395,000
	13,403,003	11,707,559

(h) ISLAMIC RESIDENTIAL MORTAGE-BACKED SECURITIES ("IRMBS")

	2013 RM'000	2012 RM'000
IRMBS	2,865,314	2,865,314

The maturity structure of the IRMBS is as follows:

	2013 RM'000	2012 RM'000
Maturing within one year	285,314	15,314
One year to three years	515,000	785,000
Three years to five years	810,000	810,000
More than five years	1,255,000	1,255,000
	2,865,314	2,865,314

(i) OTHER LIABILITES

	2013 RM'000	2012 RM'000
Zakat	2,029	1,119
Other payables	37,061	10,419
	39,090	11,538

48. ISLAMIC OPERATIONS (CONTINUED)

(j) INCOME ATTRIBUTABLE TO THE SUKUK HOLDERS

	Group 2013 RM'000	Group 2012 RM'000
Income from:		
Mortgage assets	347,330	333,450
Financing debts	266,808	254,247
Hire purchase assets	413	337
Deposits and placements of financial institutions	–	310
	614,551	588,344
Income attributable to the Sukuk holders analysed by concept:		
Mudharabah	–	310
Bai Al-Dayn	614,551	449,726
Musyarakah	–	138,308
	614,551	588,344

(k) TOTAL NET INCOME

	Group 2013 RM'000	Group 2012 RM'000
Income from:		
Mortgage assets	226,351	147,324
Hire purchase assets	159	301
Financing assets	25,186	23,650
AFS investment securities	20,200	21,548
Deposits and placements with financial institutions	14,506	6,197
Wakalah guarantee fee	244	52
Income from IPRS	(569)	(324)
	286,077	198,748
Total net income analysed by concept are as follows:		
Bai Al-Dayn	250,088	171,415
Mudharabah	18,134	12,829
Bai Bithaman Ajil	9,213	9,610
Murabahah	7,084	3,667
Musyarakah	1,314	1,174
Ijarah	–	1
Wakalah	244	52
	286,077	198,748

48. ISLAMIC OPERATIONS (CONTINUED)

(I) CAPITAL ADEQUACY

	Group	
	2013	2012
Before deducting interim dividends		
Common equity Tier 1 ("CET I") capital ratio	27.9%	27.8%
Tier I capital ratio	27.9%	27.8%
Total capital ratio	28.6%	28.4%
After deducting interim dividends		
CET I capital ratio	27.9%	27.8%
Tier I capital ratio	27.9%	27.8%
Total capital ratio	28.6%	28.4%

	Group	
	2013 RM'000	2012 RM'000
Components of CET I, Tier I and Tier II capital:		
CET I/Tier I capital:		
Allocated capital funds	294,159	294,159
Other reserves	1,354,229	1,140,454
Deferred tax liabilities	205,379	196,584
Total CET I/Tier I capital	1,853,767	1,631,197
Tier II capital:		
Allowance for impairment losses	42,828	38,831
Total Tier II capital	42,828	38,831
Total capital	1,896,595	1,670,028

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

	2013 RM'000	2012 RM'000
Credit risk	6,209,243	5,457,294
Operational risk	425,551	419,936
Total risk-weighted assets	6,634,794	5,877,230

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

48. ISLAMIC OPERATIONS (CONTINUED)

(m) SHARIAH ADVISORS

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

49. DISCRETIONARY BONUS FEE

In the respective Servicing Agreements signed between the GOM, CMBS, Cagamas and the Trustee, CMBS agreed to pay the GOM a discretionary bonus fee, out of the retained profits of CMBS, to be determined by CMBS in respect of the services provided by the GOM, after the RMBS/IRMBS have been fully redeemed and all obligations and liabilities of CMBS in respect of the RMBS/IRMBS have been discharged.

50. 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 169 (15) of the Companies Act, 1965

We, Dato' Ooi Sang Kuang and Tan Sri Dato' Sri Tay Ah Lek, being two of the Directors of Cagamas Holdings Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 104 to 180 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 2013 and of the results and the cash flows of the Group and the Company for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors,

DATO' OOI SANG KUANG
CHAIRMAN

TAN SRI DATO' SRI TAY AH LEK
DIRECTOR

Statutory Declaration
pursuant to Section 169 (16) of the Companies Act, 1965

I, Chung Chee Leong, being the Officer primarily responsible for the financial management of Cagamas Holdings Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 104 to 180 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.

CHUNG CHEE LEONG

Subscribed and solemnly declared by the abovenamed Chung Chee Leong at Kuala Lumpur in Malaysia on 6 March 2014.

Before me,
COMMISSIONER FOR OATHS

PESURUHJAYA SUMPAH
W 409
LEONG CHIEW KEONG
MALAYSIA

Suite 8-8-2, Menara Mutiara Bangsar,
Jalan Liku, Off Jalan Riong
Bangsar,
59100 Kuala Lumpur

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Cagamas Holdings Berhad on pages 104 to 180, which comprise the statements of financial position as at 31 December 2013 of the Group and the Company, and the statements of comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Note 1 to 50.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965, in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

c) The audit reports on the financial statements of the subsidiaries did not contain any qualifications or any adverse comment made under Section 174(3) of the Act.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(AF: 1146)
Chartered Accountants

SOO HOO KHOON YEAN
(No. 2682/10/15 (J))
Chartered Accountant

Kuala Lumpur,
6 March 2014

CONTENTS

1.0 OVERVIEW

The Pillar 3 Disclosure is part of Bank Negara Malaysia's (BNM's) requirements under its Risk Weighted Capital Adequacy Framework (RWCAF) which consists of 3 Pillars:

Pillar 1 Sets out the minimum capital requirements for credit, market and operational risks.

Pillar 2 Aims to ensure that banking institutions maintain adequate capital levels consistent with their risk profile and business plan at all times.

Pillar 3 Aims to promote transparency through enhanced disclosure on risk management practices and capital adequacy.

From the regulatory standpoint, the Group is not required to comply with the Bank Negara Malaysia (BNM) Basel II Pillar 3 requirements. However, the Group chose to adopt the disclosure requirement as a matter of best practices commencing from its financial year ended 31 December 2013. The Group has established a Disclosure Policy on Risk-Weighted Capital Adequacy Framework (Basel II Pillar 3) which documents the content, materiality, frequency of disclosures and internal controls over the disclosure process. The policy is approved by the Board of Directors.

In determining the capital requirement for credit risk, the Group has adopted the Advanced Internal Rating Based (AIRB) Approach for the Purchase Without Recourse (PWOR) portfolio and Standardised Approach for Purchase With Recourse (PWR) portfolio and investments.

For market risk, the Group adopts the Standardised Approach whilst risk weighted capital requirement for operational risk is based on the Basic Indicator Approach which is the average of a percentage fixed by BNM of positive annual gross income over the previous three years.

Under the BNM's RWCAF Basel II Pillar 3, the information disclosed herein is not required to be audited by external auditors. However, the disclosures provided herein have been reviewed and verified by internal auditors and attested by the President/Chief Executive Officer. The Pillar 3 disclosure will be published annually together with the annual report which is available in the Company's website, www.cagamas.com.my

2.0 SCOPE OF APPLICATION

The basis for consolidation is described in Note 2.2 to the financial statements. There are no significant restrictions or impediments to the transfer of funds or regulatory capital within the Group. There are no capital deficiencies in any of the subsidiary companies of the Group during the year.

For the purpose of this Pillar 3 disclosure, the scope shall be restricted to the subsidiary which is material in relation to the Group's assets i.e. Cagamas Berhad only (referred to herein as the Company). As this is the first time adoption of Pillar 3 disclosure, there is no comparative information regarding quantitative disclosure for the preceding financial year. This disclosure should be read in conjunction with the Group's Financial Statements for the corresponding financial year.

3.0 CAPITAL MANAGEMENT

The Company's capital management is guided by its Capital Management Framework which sets out the minimum policies and procedures required to be put in place to ensure adequate capital is maintained to support the development of its businesses.

The framework aims to ensure that the Company reviews its capital requirements over a minimum of a 3-year period, consistent with the Company's risk profile and business plan and also to maintain an adequate capital level at all times. This involves the following key initiatives:

- Focus on measuring risk-adjusted return on capital in evaluating business proposals that requires incorporating the Company's unique developmental role in the debt capital market and as a liquidity provider;
- Continuous monitoring of the robustness of its capital position and an efficient use of capital through the 3-year capital plan;
- Early planning to meet Basel III requirements, including the implementation of the ICAAP as well as ensuring that capital requirements under stressed scenarios are taken into account in capital planning.

The capital management strategy is dynamic and forward-looking, incorporates the capital needs of existing and new businesses and takes into account the business environment that impacts the needs and value of the Company.

The strategy involves the proactive management of the Company's capital structure to be effective whilst maintaining a strong and robust capital position aligned to the risk profile and supports business growth. This involves ongoing review and monitoring of the level and quality of the Company's capital by the Board of Directors, and is assessed based on the following key objectives:

- Maintaining a high level of financial strength, correlated to the overall risk profile and risk appetite;
- Preserving financial flexibility for funding internal growth;
- Be able to withstand capital demands under market shocks and stress conditions;
- Maintaining the Company's strong external credit ratings;
- Satisfying the expectations of the various stakeholders, counterparties, debt obligors, rating agencies and shareholders.

The revised guidelines on the capital management framework which was issued by BNM on 28 November 2012 sets out the general requirements concerning regulatory capital adequacy, components of eligible regulatory capital and requirements for computing risk-weighted assets (RWA). RWA for the Company is computed in accordance with the Basel II Capital Adequacy Framework.

3.1 Capital Adequacy Ratios

The following table details the capital adequacy ratios for Cagamas Berhad as at 31 December 2013:

	2013
Before deducting proposed dividends	
Core capital ratio	23.7%
Risk-weighted capital ratio	24.3%
After deducting proposed dividends	
Core capital ratio	23.5%
Risk-weighted capital ratio	24.1%

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.2 Capital Structure

The following table details the capital structure for Cagamas Berhad as at 31 December 2013:

	2013 RM'000
Tier I Capital	
Paid-up share capital	150,000
Retained profits	2,406,998
Less: Deferred tax assets	(8,929)
	2,548,069
Tier II Capital	
Allowance for impairment loss	63,855
Capital Base	2,611,924

3.3 Minimum Regulatory Capital Requirement

The following table presents the minimum capital requirements to support the Company's RWA as at 31 December 2013:

Exposure Class	Risk weighted assets RM'000	Minimum capital requirement at 8% RM'000
i) Credit Risk	10,044,004	803,520
ii) Market Risk	–	–
iii) Operational Risk	705,105	56,408
Total	**10,749,109**	**859,928**

4.0 RISK MANAGEMENT

The Cagamas Group takes a holistic and enterprise-wide view in managing risk across the subsidiaries with regular evaluation of risks.

4.1 Enterprise Risk Management (ERM) Framework

ERM forms part of Cagamas' culture and is embedded into business processes and practices. The Board approved ERM Framework details the responsibility and accountability of the Board of Directors ("the Board" or "BOD"), Board Risk Committee (BRC), President/Chief Executive Officer (CEO), Chief Risk Officer (CRO), Management Executive Committee (MEC), Asset Liability Committee (ALCO), Risk Management Department (RMD), Internal Audit Department (IAD) and Cagamas employees.

4.0 RISK MANAGEMENT (CONTINUED)

4.1 Enterprise Risk Management (ERM) Framework (continued)

The ERM Framework is geared towards achieving Cagamas' objectives, set forth in four categories:

- Strategic – high-level goals, aligned with and supporting its mission
- Operations – effective and efficient use of its resources
- Financial – profitability and sustainability of performance
- Reporting & Compliance – reliability of reporting and compliance with applicable laws and regulations

In line with the ERM, three lines of defence in managing risks is adopted within the Group. Business units being the first line of defence have the primary responsibility of identifying, mitigating and managing risks within their lines of business. They also ensure that their day-to-day activities are carried out within established risk policies, procedures and limits.

An independent RMD plays the role of second line of defence by providing specialised resources to proactively manage risks. This includes the assessing of risk exposures and the coordination of risk management on an enterprise-wide basis. RMD is also responsible for ensuring that risk policies are implemented accordingly.

The IAD being the third line of defence is responsible for independently reviewing the adequacy and effectiveness of risk management processes, system of internal controls and compliance with internal risk policies.

4.2 Risk Governance Structure

The Board sets the overall strategic direction for Cagamas. It provides oversight to ensure that Management has appropriate risk management system and practices to manage risks associated with the Company's operations and activities. The Board sets the risk appetite and tolerance levels that are consistent with the Company's overall business objectives and desired risk profile. The Board also reviews and approves all significant risk management policies and risk exposures.

The BRC assists the BOD by ensuring that there is effective oversight and development of strategies, policies and infrastructure to manage the Company's risks. The BRC is supported by management committees which address key risks identified.

The MEC and ALCO which comprises senior management of the Group are chaired by the CEO and undertake the oversight function for capital allocation and overall risk limits, aligning them to the risk appetite set by the Board. Management is also responsible for the implementation of policies laid down by the Board and ensuring there are adequate and effective operational procedures, internal controls and systems to support these policies.

The RMD is responsible for identifying, measuring, analyzing, controlling, monitoring and reporting of risk exposures independently and coordinating the management of risks on an enterprise-wide basis. It is independent of other departments involved in risk-taking activities and reports directly to the BRC.

4.3 Internal Capital Adequacy Assessment Process (ICAAP)

ICAAP primarily involves a comprehensive assessment of all material risks that the Company is exposed to, assessing the adequacy of the Company's capital in relation to its risks and set capital targets that commensurate with its risk profile and operating environment, taking into consideration the Company's business strategy and risk appetite. The following are the main components in the Company's ICAAP:

4.0 RISK MANAGEMENT (CONTINUED)

4.3 Internal Capital Adequacy Assessment Process (ICAAP) (continued)

(a) Risk Appetite

Risk Appetite is the acceptable risk tolerance for each material risk category and other related parameters in achieving the Company's business objectives. It does not seek to prevent risk taking. Instead, it ensures that the risks undertaken by the Company are aligned to its chosen business strategies.

(b) Material Risk Assessment & Quantification

Analyse all risks that occur in the Company's business activities and recognise the risks that the Company is in or can be exposed to in the future. These include quantifiable and non-quantifiable risks. Risks are aggregated in order to determine the Company's overall risk under the ICAAP, including impact assessment of stress on internal RWCR target.

(c) Stress testing

A rigorous and forward-looking stress testing is an integral part of ICAAP, enabling the Company to assess the impact to its capital adequacy arising from adverse events or changes in market conditions. Further stress testing would enable the Company to assess the vulnerability of its balance sheet and resilience of financial plans to extreme but plausible stress events.

To ensure effectiveness of stress test results, a range of scenarios are considered which includes at least an adverse economic scenario that is severe but plausible, such as severe economic downturn and/or a system-wide shock to liquidity. The stress would be company-wide covering all relevant risk areas and material entities within the Company. Results of the stress test are deliberated by the MEC and reported to the BRC and BOD.

(d) Capital management

Measurement of the Company's available capital and capital instruments is detailed in the Capital Management Framework. The components considered in available capital are reviewed or enhanced when required to ensure relevance.

(e) Independent review

An independent review of ICAAP will be performed to review the processes or systems for assessing the various risks that the Company is exposed to and for relating the risks to capital levels. The scope includes review of the appropriateness of the internal capital adequacy assessment process, the identification of material risks, the reasonableness of stress testing scenarios, the integrity, verifiability and completeness of data inputs and the assumptions used.

5.0 CREDIT RISK

Credit risk is defined as the potential for financial loss resulting from the failure of a borrower or counterparty to fulfill its financial or contractual obligations. Credit risk within the Company arises from Purchase with Recourse (PWR) and Purchase without Recourse (PWOR) business, mortgage guarantee programme, investments and treasury hedging activities. The Company seeks to take credit risks that meet the underwriting standards and to ensure that risks taken commensurate with the margin charged.

5.0 CREDIT RISK (CONTINUED)

Credit Risk Management Oversight and Organisation

The Management Executive Committee (MEC) is the senior management committee responsible for the Company's overall credit risk exposures, taking a proactive view of risks and to position the credit portfolio. MEC which is chaired by the CEO also reviews the Company's credit risk management framework, the credit profile of material portfolios and aligns credit risk management with business strategy.

Business Units undertakes thorough credit assessment prior to submission to the Credit Risk Section of the RMD. The Credit Risk Section will independently assess the credit risk of the counterparty taking into consideration the financial strength and business profile prior to recommendation to the MEC. Credit Risk Section is also responsible for formulating and developing credit risk policies and procedures for identifying, measuring, monitoring and reporting credit risk of the Company. Credit limits are approved by MEC within the risk appetite set by the BOD.

Regular risk reporting which include quality of portfolio, changes in rating and concentration risk exposures is made to the BRC and BOD for an oversight function.

Credit Risk Management Approach

Credit risk management includes the establishment of credit risk policies, procedure manual documenting the Company's processes and controls, approval authority, credit risk rating, and review processes. These standards cover credit origination, measurement and documentation as well as problem recognition, classification and remedial actions.

The Company manages its credit risk via a thorough assessment of the counterparties, stipulates prudent eligibility criteria and conducts due diligence on loans and financings to be purchased. The Company has in place an internal rating system which sets out the maximum credit limit permissible for each category of rating.

Credit limits are reviewed periodically and are determined based on the combination of external ratings, internal credit assessment and business requirement. Financing activities are also guided by internal credit policies, procedure manuals and Risk Appetite Framework that are approved by the BOD.

Key areas of credit exposures:

(a) Purchase With Recourse (PWR)

Under the PWR scheme, the Company takes on counterparty risk i.e. credit risk of the selling institutions given the latter's undertaking to repurchase or replace ineligible loans. Reviews on counterparties are conducted at least once a year with updated information. The Company has strict limits on counterparty exposures based on rating and internal credit assessment. In addition, concentration risk under PWR are managed and monitored via concentration limits established based on the type of counterparty and the type of assets.

(b) Purchase Without Recourse (PWOR)

As for PWOR scheme, the Company absorbs all the credit risk of the loans and financing acquired wherein purchases are restricted to the approved sellers. Purchase of these loans is managed via adherence to stringent eligible criteria and due diligence on the portfolio prior to the purchase. To further mitigate credit risks, PWOR purchases may include loans with automated salary deduction feature. These portfolios are monitored via concentration limits based on property types and location.

5.0 CREDIT RISK (CONTINUED)

Key areas of credit exposures: (continued)

(c) Investment and Derivatives Activities

The management of credit risk arising from the Company's investment of its surplus funds is primarily via the setting of counterparty credit limits. The credit limits are established following an assessment of the counterparty creditworthiness in accordance with investment policy approved by the BOD. The investment policy stipulates the minimum investment grade for debt securities and the maximum tenure and is subject to regular review. Credit exposures are also controlled through independent monitoring and reporting of excesses and breaches against approved limits and risk mitigation thresholds.

The Company has limited exposure to Interest Rate Swap (IRS) and Islamic Profit Rate Swap (IPRS) which is primarily used for hedging purposes only.

5.1 Credit Risk Mitigation

Generally, credit limits are not granted solely on the basis of the collateral provided as all credit limits are assigned on the basis of the counterparty's credit standing, source of repayment and debt servicing ability.

Under the PWR scheme, the Company accepts guarantee from the parent company of the corporate and institutional counterparties to mitigate credit risk subject to internal guidelines and policy. For the credit exposure which is secured by a guarantee from an eligible guarantor, the portion of the exposure is weighted according to the risk weight appropriate to the guarantor. In accordance to the BNM's RWCAF guidelines, this guarantee shall not be considered again for credit risk mitigation purposes as the rating has already taken into account the guarantee pledged by the parent of the counterparty.

The following table presents the minimum regulatory capital requirement for credit risk:

Exposure Class Credit Risk	**Total exposures before Credit Risk Mitigation RM'000**	**Total exposures after Credit Risk Mitigation RM'000**	**Risk weighted assets RM'000**	**Minimum capital requirement at 8% RM'000**
On–balance sheet exposure:				
Sovereign & Central Banks	825,526	825,526	–	–
Banks, Development Financial Institutions & Multilateral Development Banks	10,555,106	10,555,106	4,294,840	343,587
Corporates & Leasing companies	733,039	733,039	321,299	25,704
Residential mortgages	15,333,475	15,333,475	5,003,311	400,265
Hire Purchase	11,034	11,034	3,207	256
Other assets	33,361	33,361	33,359	2,669
Defaulted exposures	96,202	96,202	383,530	30,682
Total	**27,587,743**	**27,587,743**	**10,039,546**	**803,163**
Off-balance sheet exposure:				
Derivative financial instruments	7,286	7,286	4,458	357
Total credit exposures	**27,595,029**	**27,595,029**	**10,044,004**	**803,520**

5.0 CREDIT RISK (CONTINUED)

5.2 Distribution of Credit Exposures

The Company's counterparties are mainly the Government of Malaysia (GOM), financial institutions, development financial institutions and corporate companies in Malaysia. The following tables present the analysis of credit exposure of financial assets before the effect of credit risk mitigation of the Company by:

(a) Industrial analysis based on its industrial distribution;

2013	Cash and short term funds 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 RM'000	Islamic mortgage assets RM'000	Hire purchase assets RM'000	Islamic hire purchase assets RM'000	Others assets RM'000	Total RM'000
Government bodies	–	–	541,413	–	–	–	–	–	–	4,184	545,597
Financial institutions:											
– Commercial banks	392,780	7,286	352,511	3,460,859	6,107,933	–	–	–	–	–	10,321,369
– Investment banks	200,176										200,176
Communications, electricity, gas and water	–	–	55,493	–	–	–	–	–	–	–	55,493
Transportation	–	–	233,265	–	–	–	–	–	–	–	233,265
Leasing	–	–	–	364,867	–	–	–	–	–	–	364,867
Consumer	–	–	–	–	–	7,846,587	7,582,923	4	11,196	–	15,440,710
Others	–	–	404,376	–	–	–	–	–	–	6,354	410,730
Total	592,956	7,286	1,587,058	3,825,726	6,107,933	7,846,587	7,582,923	4	11,196	10,538	27,572,207

(b) Geographical location analysis is not applicable because all credit exposures comprise domestic exposures.

5.0 CREDIT RISK (CONTINUED)

5.2 Distribution of Credit Exposures (continued)

(c) Maturity analysis based on the residual contractual maturity

	Within one year RM'000	One to three years RM'000	More than three to five years RM'000	More than five years RM'000	Non interest/ profit bearing RM'000	Total RM'000
On balance sheet exposure:						
Cash and short-term funds	542,387	–	–	–	50,569	592,956
Derivatives financial instruments	–	–	–	–	7,286	7,286
AFS investment securities	358,627	511,522	447,033	269,876	–	1,587,058
Amount due from counterparties	1,459,899	1,266,347	1,099,480	–	–	3,825,726
Islamic financing assets	707,743	3,478,802	1,921,388	–	–	6,107,933
Mortgage assets:						
– Conventional	1,075,459	1,418,502	1,357,694	5,410,488	(1,415,556)	7,846,587^1
– Islamic	747,404	1,000,905	1,035,932	6,082,535	(1,283,853)	7,582,923^3
Hire purchase assets:						
– Conventional	5	–	–	–	(1)	4^2
– Islamic	6,177	4,783	761	–	(525)	11,196^4
Other assets	1,920	1,698	1,139	1,665	4,116	10,538
Total on-balance sheet exposure	4,899,621	7,682,559	5,863,427	11,764,564	(2,637,964)	27,572,207
Off balance sheet exposure:						
IRS/IPRS	–	–	34,286	9,900	–	44,186
Total	4,899,621	7,682,559	5,897,713	11,774,464	(2,637,964)	27,616,393

^1 Includes impairment losses on conventional mortgage assets of RM35,745,603.
^2 Includes impairment losses on conventional hire purchase assets of RM1,204.
^3 Includes impairment losses on Islamic mortgage assets of RM28,040,701.
^4 Includes impairment losses on Islamic hire purchase assets of RM66,518.

5.0 CREDIT RISK (CONTINUED)

5.3 Off Balance Sheet Exposure and Counterparty Credit Risk (CCR)

CCR on derivative financial instruments is the risk that the Company's counterparty in a foreign exchange, interest rate, commodity, equity, option or credit derivative contract defaults prior to maturity date of the contract and that the Company, at the relevant time has a claim on the counterparty. Derivative financial instruments restricted to interest rate related contracts are entered into solely for hedging purposes.

Off Balance Sheet Exposures	Principal Amount RM '000	Positive Fair Value of Derivatives Contracts RM '000	Credit Equivalent Amount RM '000	Risk Weighted Assets RM '000
Derivatives Financial Instruments	500,000	7,286	22,286	4,458
Interest rate related contracts				
– Less than 1 year	–	–	–	–
– 1 year to less than 5 years	500,000	7,286	22,286	4,458
– 5 years and above	–	–	–	–

5.4 Credit Rating

5.4.1 Assignment of risk weights under the Standardised Approach

Under the Standardised Approach, the Company uses the credit rating assigned by the credit rating agencies in its calculation of credit risk-weighted assets for PWR, investment and IRS assets in accordance with BNM RWCAF. Rating agencies or External Credit Assessment Institutions ("ECAI") recognized by BNM are as follows:

(i) Standard & Poor's Rating Services (S&P);
(ii) Moody's Investors Service (Moody's);
(iii) Fitch Ratings (Fitch);
(iv) Rating Agency Malaysia Berhad (RAM);
(v) Malaysian Rating Corporation Berhad (MARC); and
(vi) Rating & Investment Information, Inc (R&I).

In accordance with BNM RWCAF, where the exposure is rated by more than one external rating agency, risk weight shall be determined based on the second highest rating. The counterparty shall be deemed as unrated when an exposure is not rated by the rating agency whilst exposure which is secured by an explicit guarantee issued by an eligible or rated guarantor, rating similar to that of the guarantor is assigned. For the purpose of Cagamas internal rating, the lowest rating is adopted in cases where the counterparty is rated by more than one external rating agency.

5.0 CREDIT RISK (CONTINUED)

5.4 Credit Rating (continued)

5.4.1 Assignment of risk weights under the Standardised Approach (continued)

The following table presents the credit exposures of the Company after the effect of credit risk mitigation by risk weights:

Risk Weights	Sovereign & Central Banks RM'000	FI & DFI* RM'000	Corporate & Leasing Companies RM'000	Other Assets RM'000	Total Risk Weighted Assets RM'000
0% #	825,526	19,839	–	2	–
10%	–	–	–	–	–
20%	–	3,249,929	301,855	–	713,357
50%	–	7,292,624	340,512	–	3,816,568
100%	–	–	90,672	33,359	124,031
Total	**825,526**	**10,562,392**	**733,039**	**33,361**	**4,653,956**
Average Risk Weights	0.0%	40.7%	43.8%	100.0%	38.3%

*FI – financial institutions
DFI – development financial institutions

Under the BNM RWCAF, exposures to and/or guaranteed by the Federal Government of Malaysia are accorded a preferential sovereign risk weight of 0%.

5.0 CREDIT RISK (CONTINUED)

5.4 Credit Rating (continued)

5.4.1 Assignment of risk weights under the Standardised Approach (continued)

The following table is a summary of the risk weight mapping matrix and the allocation of risk weights under the Standardised Approach:

Rating of Counterparties by Approved ECAIs

Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to C	Unrated
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class:	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-balance sheet exposure					
Public Sectors Entities	–	–	–	–	–
Sovereign/Central Banks #	–	825,526	–	–	–
FI and DFI	3,249,929	3,851,617	3,460,846	–	–
Corporate and Leasing Companies	301,855	340,512	–	–	90,672
Total	**3,551,784**	**5,017,655**	**3,460,846**	**–**	**90,672**

Under the BNM RWCAF, exposures to and/or guaranteed by the Federal Government of Malaysia are accorded a preferential sovereign risk weight of 0%.

5.0 CREDIT RISK (CONTINUED)

5.4 Credit Rating (contnued)

5.4.2 Assignment of risk weights under the Advanced Internal Rating Based (AIRB) Approach

The Company adopts the AIRB approach for its PWOR exposure which primarily consists of mortgage loans and hire purchase loans where 3 key parameters i.e. PD, LGD and Exposure at Default (EAD) are used to quantify the credit risk.

The risk estimates are developed based on internal historical data wherein study on the historical behaviour of the portfolio forms the basis for the computation of PD and LGD. EAD is the exposure when default occurs.

Disclosure on exposure by PD range:-

	EAD	LGD	Exposure Weighted Average RW	RWA
	RM '000	%	%	RM '000
Mortgage assets				
PD range: up to 0.5%	–	–	–	–
>0.5% to 3%	18,032,883	32.08%	27.75%	5,003,311
>3% to <100%	–	–	–	–
100%	96,036	32.08%	398.67%	382,869
Hire Purchase assets				
PD range: up to 0.5%	–	–	–	–
>0.5% to 3%	11,559	32.08%	27.75%	3,207
>3% to <100%	–	–	–	–
100%	166	32.08%	398.67%	661
Total	18,140,644			5,390,048

5.5 Past Due and Impaired Loans

The Company assesses the loan impairment rate by determining the PD and LGD for the mortgage loans purchased from the Government of Malaysia (“GOM”) based on the data provided by GOM. Impairment allowance required is determined by the PD and LGD as calculated by the Company, and these are calculated based on the loan impairment methodology.

PD is calculated as the number of defaulted loans over the total number of loans from the beginning of the 12 months beginning from the date of purchase to the cut-off date.

5.0 CREDIT RISK (CONTINUED)

5.5 Past Due and Impaired Loans (continued)

LGD is calculated using recoveries as a percentage of the defaulted outstanding balance using the recovery data of loans which have defaulted from 2004 to 2013 and incorporates both cash recoveries and recoveries from the disposal of collateral. An adjustment is made to reflect the view that the Company's recovery data is not yet seasoned.

Impairment allowance 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.

(a) The following table is a summary of the impairment allowance by economic purposes:

	Neither past due nor impaired RM '000	Past due but not individually impaired RM '000	Total RM '000	Impairment allowance RM '000	Total carrying value RM '000
Purchase of residential properties	19,479,140	96,036	19,575,176	63,787	19,511,389
Purchase of motor vehicles	4,025,648	166	4,025,814	68	4,025,746
Personal use	1,837,234	–	1,837,234	–	1,837,234
	25,342,022	96,202	25,438,224	63,855	25,374,369

(b) The following table is a summary of the impairment allowance by product-type:

	Neither past due nor impaired RM '000	Past due but not individually impaired RM '000	Total RM '000	Impairment allowance RM '000	Total carrying value RM '000
Amount due from counterparties	3,825,726	–	3,825,726	–	3,825,726
Islamic financing assets	6,107,933	–	6,107,933	–	6,107,933
Mortgage assets					
– Conventional	7,823,324	59,009	7,882,333	35,746	7,846,587
– Islamic	7,573,937	37,027	7,610,964	28,041	7,582,923
Hire Purchase assets					
– Conventional	1	4	5	1	4
– Islamic	11,101	162	11,263	67	11,196
	25,342,022	96,202	25,438,224	63,855	25,374,369

6.0 MARKET & LIQUIDITY RISK

Market risk is the potential loss arising from adverse movement of market prices and rates. Market risk exposure is limited to interest rate only as the Company is not engaged in any equity, foreign exchange or commodity trading activities. The Company is not exposed to interest rate risk arising from trading activities as it is prohibited.

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

Market and Liquidity Risk Management Oversight and Organisation

The ALCO is the senior management committee responsible for the Company's management of market and liquidity risk activities including the setting of risk limits. The ALCO which is chaired by the CEO reviews the Company's market and liquidity risk policies, funding strategy, align market and liquidity risk management with business strategies and review performance of investment portfolio, hedged positions and risk limits/compliance.

RMD supports ALCO at the working level and is an independent risk control unit responsible for developing the market and liquidity risk policy and ensuring adequate risk control oversight.

Market and Liquidity Risk Management Approach

The Company manages market and liquidity risks by imposing threshold limits which are approved by management within the parameters approved by the Board based on a risk-return relationship.

Further, the Company also adheres to a strict match-funding policy where all asset purchases are funded by bonds of closely matched size as well as duration and self-sufficient in terms of cashflow. Forward looking liquidity mechanism is in place to promote efficient and effective cashflow management while avoiding excessive concentrations of funding. The Company plans its cash flow and monitors closely every business transaction to ensure that available funds are sufficient to meet business requirements at all times. Reserve liquidity which comprises marketable debt securities are also set aside to meet any unexpected shortfall in cash flow or adverse economic conditions in the financial market.

Derivatives instruments such as interest rate swaps are used to manage and hedge market risk exposures against fluctuations in the interest rates. Liquidity management processes involve regular monitoring against liquidity risk limits, and establishing contingency funding plan. These processes are subject to regular review. The Company also monitors liquidity based on Basel III liquidity coverage ratio and net stable funding ratio.

6.1 Management of Interest Rate Risk in the Banking Book

The interest rate risk in the banking book is monitored on a monthly basis and exposure is minimal given the match funding approach adopted by the Company for its assets and liabilities. The impact on net interest income is simulated and the following table summarises the impact arising from a 100 basis points parallel shift.

Type of Currency	Impact on Position as at 31 December 2013 (-100 basis points) Parallel Shift	Impact on Position as at 31 December 2013 (+100 basis points) Parallel Shift
	Increase/ (Decline) in Net Interest Income RM'000	Increase/ (Decline) in Net Interest Income RM'000
MYR	(14,301)	14,395

7.0 OPERATIONAL RISK

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

Operational Risk Management Oversight and Organisation

It is the MEC that governs operational risk within the Company. The Committee meets at least on a quarterly basis and discusses operational risk related issues.

The RMD established the Company's Operational Risk Management (ORM) Framework which clearly defines the Company's approach to operational risk management that includes the Company Risk & Control Self-Assessment/Operational Risk Policy and Standards ("The Policy"). The operational risk section of RMD provides independent oversight of operational risk monitoring and control. Legal Risk is managed by the Legal and Compliance Department (LCD) and where necessary, in consultation with external legal counsel.

Operational Risk Management Approach

The Operational Risk Management policy codifies the core governing principles for operational risk management and provides a consistent, value added framework for assessing, communicating operational risk and the overall effectiveness of the internal control environment

Business/Support Units constitute an integral part of the operational risk management framework and are primarily responsible for the day-to-day management of operational risk. These units are responsible for establishing and maintaining their respective operational manuals and ensuring that activities undertaken comply with the Group's operational risk management framework. Each business/ support unit undertakes self-assessment of the risk and control environment to identify, assess and manage its operational risks. Operational risk losses and incidents are reported to senior management and BRC through RMD who provides independent assessment.

The Management places a very high value on maintaining an effective control environment to mitigate operational risk. Therefore, a number of tools have been put in place to mitigate this risk. These tools range from:

- Risk & Control Self-Assessment ("RCSA") which is a process of continual assessment of inherent operational risks and controls to identify control gaps and to develop action plans to close the gaps. It is a risk profiling tool which facilitates effective operational risk management for the Company. The RCSA is sign-off by the respective department senior management/head;
- Key risk indicators as early warning signals of increasing risk and/or control failures by flagging up given frequencies of events as a mechanism for continuous risk assessment/monitoring;
- Incident management which is a structured process and system to identify and focus attention on operational 'hotspots' and facilitates the minimisation of risk impact; and
- Operational loss reporting.

In order to ensure uninterrupted services and to safeguard human life and Cagamas' assets during disaster, Cagamas has put in place a well defined Business Continuity Management (BCM) for its various critical functions. BCM comprises of Business Continuity Plan (BCP) and Disaster Recovery (DR), in the event of business disruption/disaster and consequent BCP invocation. The resilience of these plans under different scenarios are being tested on an ongoing basis through regular DR exercises.

The Company uses Basic Indicator approach for calculating Operational Risk Capital.

8.0 SHARIAH GOVERNANCE DISCLOSURE

The Company consults and obtain endorsements/clearance from an independent Shariah Advisor for all its Islamic products and transactions to ensure compliance with Shariah requirements. In addition, the Company obtains the approval of the Shariah Advisory Councils of Bank Negara Malaysia and Securities Commission for its Islamic products.

Periodic internal audits are performed to verify that Islamic operations conducted by the business units are in compliance with the decisions endorsed by the Shariah Advisor. Any incidences of Shariah non-compliance are reported to both the Shariah Advisor and the Group Board Audit Committee.

During the financial period under review, there is no non-Shariah compliant event.