

Financial Statements

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Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements of the Group and Company for the financial year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Company consist of purchases of mortgage loans and hire purchase and leasing debts from primary lenders approved by the Company and the issue of bonds and notes to finance the purchases. The Company also purchases Islamic house financing debts and Islamic hire purchase debts and issues bonds under Islamic principles. In 2007, the Company's principal activities include the purchases without recourse ("PWOR") of mortgage assets.

In addition, the Company provides administrative services to its subsidiary and Special Purpose Entities ("SPE"). The principal activities of the subsidiary consist of 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 of mortgage assets and Islamic mortgage assets.

The principal activities of Cagamas SME Berhad ("CSME"), its SPE, consist of issuance of bonds to finance the purchases of the Small and Medium Enterprise ("SME") loans via cash or synthetic securitisations or a combination of both. In addition, the SPE could also be a swap counterparty and issuer of credit-linked notes in a synthetic securitisation transaction. The principal activities of BNM Sukuk Berhad ("BNM Sukuk"), its other SPE, involves undertaking the issuance of Islamic securities investment namely Sukuk BNM Ijarah based on Syariah principles to finance the purchase of the beneficial interest of land and building from Bank Negara Malaysia ("BNM") and, thereafter to lease back the same land and building to BNM for the contractual period which is similar to the tenure of the Sukuk BNM Ijarah.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit for the financial year	403,629	117,644

DIVIDENDS

The dividends paid by the Company since 31 December 2006 were as follows:

	RM'000
In respect of the financial year ended 31 December 2006, as shown in the Directors' report of that financial year,	
a final gross dividend of 10 sen per share on 150,000,000 ordinary shares, less income tax of 27%, paid on 21 May 2007	10,950
In respect of the financial year ended 31 December 2007,	
an interim gross dividend of 5 sen per share on 150,000,000 ordinary shares, less income tax of 27%, paid on 12 October 2007	5,475
	16,425

The Directors approved the payment of a special dividend of 45.05 sen per share, less income tax of 26%, on 150,000,000 ordinary shares amounting to RM50,005,500 payable to Cagamas Holdings Berhad, for the purpose of capital injection into the joint venture company for engaging in the mortgage guarantee business. Details on the group restructuring and the joint venture company are disclosed in Note 47 to the financial statements.

DIVIDENDS (CONTINUED)

The Directors now recommend the payment of a final dividend of 10 sen per share, less income tax of 26%, on 150,000,000 ordinary shares amounting to RM11,100,000 for the financial year ended 31 December 2007 which, subject to approval of members at the forthcoming Annual General Meeting of the Company, to be paid on 8 July 2008 to shareholders registered on the Company's Register of Members as at the close of business on 12 June 2008.

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

RAM Rating Services Berhad ("RAM") assigned a rating of AAA/P1 to the bonds and notes issued by the Company. Malaysian Rating Corporation Berhad ("MARC") has assigned ratings of AAA/AAA_{ID} and MARC-1/MARC-1_{ID} to the same bonds and notes issued by the Company. At Group level, RAM and MARC have assigned ratings of AAA and AAA/AAA_{ID}/AAA_{IS} respectively to the assets-backed Fixed Rate Serial Bonds and Sukuk Musyarakah Issuance.

RELATED-PARTY TRANSACTIONS

Most of the transactions involving mortgage loans, hire purchase and leasing debts, Islamic house financing debts and Islamic hire purchase debts as well as issuance of unsecured debt securities are done at arm's length with various financial institutions including that of substantial shareholders of the Group and 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)
Dato' Sri Tay Ah Lek
Dato' Mohd Razif Abd Kadir
Dato' Albert Yeoh Beow Tit
Yvonne Chia
YM Tunku Afwida Tunku A. Malek
Tang Wing Chew
Cheah Tek Kuang
George Ratilal
Dato' Sri Abdul Hamidy Abdul Hafiz
Datuk Amirsham A. Aziz (Resigned on 18 March 2008)

In accordance with Articles 19.13 and 19.14 of the Company's Articles of Association, Dato' Mohd Razif Abd Kadir, Dato' Albert Yeoh Beow Tit and YM Tunku Afwida Tunku A. Malek retire by rotation 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 Company is a party, being arrangements with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of 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 disclosed in Note 29 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 he is a member, or with a company in which he has substantial financial interest.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, none of the Directors in office at the end of the financial year held any interest in shares in the Company.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statements and balance sheets 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 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 written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and 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 Company misleading; or

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

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 or Company to meet their obligations when they fall due.

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

(a) any charge on the assets of the Group or 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 or Company which has arisen since the end of the financial year.

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.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

In the opinion of the Directors,

(a) the results of the Group and 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 or Company for the financial year in which this report is made.

SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Significant events subsequent to the balance sheet date are disclosed in Note 47 to the financial statements.

AUDITORS

Our auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

In accordance with a resolution of the Board of Directors dated 11 April 2008.

DATO' OOI SANG KUANG
CHAIRMAN

DATO' SRI TAY AH LEK
DIRECTOR

Balance Sheets
as at 31 December 2007

	Note	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
ASSETS					
Cash and short-term funds	5	1,042,271	1,252,378	767,232	1,236,668
Deposits and placements with financial institutions	6	500,145	682,100	500,000	200,000
Derivative financial instruments	38	7,768	10,286	7,768	10,286
Available-for-sale investment securities	7	1,081,934	764,478	482,440	395,980
Amounts due from counter parties	8	13,297,934	15,888,544	13,297,934	15,888,544
Mortgage assets	9	7,844,258	3,120,441	2,550,088	–
Islamic mortgage assets	10	4,082,460	2,050,388	–	–
Islamic financing debts	11	6,962,797	5,255,649	6,962,797	5,255,649
Tax recoverable		1,144	3,002	–	3,002
Other assets	12	466,919	281,591	134,822	37,846
Investment in subsidiary and SPE	35	–	–	–*	–*
Property and equipment	13	2,253	1,966	2,253	1,966
Intangible assets	14	18,431	15,804	18,431	15,804
Amount due from subsidiary and SPE		48	–	1,301	693
TOTAL ASSETS		35,308,362	29,326,627	24,725,066	23,046,438
LIABILITIES					
Unsecured bearer bonds and notes	15	15,477,246	15,228,769	15,477,246	15,228,769
Islamic bonds	16	7,512,452	6,200,679	7,512,452	6,200,679
Derivative financial instruments	38	5,993	8,889	5,993	8,889
Residential mortgage-backed securities	17	5,445,000	3,615,000	–	–
Islamic residential mortgage-backed securities	18	4,160,000	2,050,000	–	–
Deferred taxation	19	187,079	136,589	12,826	24,077
Other liabilities	20	240,722	186,261	189,795	151,092
TOTAL LIABILITIES		33,028,492	27,426,187	23,198,312	21,613,506
SHARE CAPITAL	21	150,000	150,000	150,000	150,000
RESERVES	22	2,129,870	1,750,440	1,376,754	1,282,932
SHAREHOLDERS' FUNDS		2,279,870	1,900,440	1,526,754	1,432,932
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		35,308,362	29,326,627	24,725,066	23,046,438
NET TANGIBLE ASSETS PER SHARE (RM)	32	15.08	12.56	10.06	9.45

* Investment in subsidiary and SPE of RM6

Income Statements

for the financial year ended 31 December 2007

	Note	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Interest income	23	1,170,107	1,137,024	736,268	834,068
Income from Islamic assets	24	326,154	206,046	–	–
Interest expense	25	(795,707)	(891,909)	(587,138)	(717,274)
Profit attributable to Islamic bondholders	26	(142,800)	(93,683)	–	–
Islamic operations income	45	13,918	14,719	13,918	14,719
Non-interest income	27	19,276	17,600	27,371	17,600
NET INCOME		590,948	389,797	190,419	149,113
Administration and general expenses		(17,035)	(16,616)	(10,022)	(10,578)
Personnel cost		(14,262)	(9,596)	(14,262)	(9,596)
OPERATING PROFIT	28	559,651	363,585	166,135	128,939
Allowance for impairment losses on mortgage assets and Islamic mortgage assets	30	(17,977)	–	(2,856)	–
PROFIT BEFORE TAXATION AND ZAKAT		541,674	363,585	163,279	128,939
Taxation	31	(136,526)	(91,483)	(44,116)	(34,466)
Zakat		(1,519)	(1,203)	(1,519)	(1,203)
NET PROFIT FOR THE FINANCIAL YEAR		403,629*	270,899*	117,644	93,270
EARNINGS PER SHARE (SEN)	32	269.10	180.60	78.40	62.20
DIVIDEND PER SHARE (SEN)	33	60.05	15.00	60.05	15.00

* As set out in Note 46 to the financial statements, net profit for the financial year includes profit for Cagamas MBS Berhad ("CMBS") of RM285,985,000 (2006: RM177,629,000) that may be subject to a discretionary bonus fee to the GOM after full settlement of the RMBS/IRMBS.

Statements of Changes in Equity

for the financial year ended 31 December 2007

Group	Note	Issued and fully paid ordinary shares of RM1 each Share Capital RM'000	Non-distributable Available-for-sale Reserve RM'000	Distributable Retained Profits RM'000	Distributable Other Reserves RM'000	Total RM'000
Balance as at 1 January 2007		150,000	11,267	1,271,656	467,517	1,900,440
Revaluation of available-for-sale investment securities (net)		–	(10,572)	–	–	(10,572)
Deferred tax on revaluation of available-for-sale investment securities		–	2,798	–	–	2,798
Income and expenses recognised directly in equity		–	(7,774)	–	–	(7,774)
Net profit for the financial year		–	–	403,629	–	403,629
Total recognised income and expenses for the financial year		–	(7,774)	403,629	–	395,855
Transfer to other reserve		–	–	(297,175)	297,175	–
Final dividends in respect of financial year ended 31 December 2006		–	–	(10,950)	–	(10,950)
Interim dividends in respect of financial year ended 31 December 2007		–	–	(5,475)	–	(5,475)
Balance as at 31 December 2007	21 & 22	150,000	3,493	1,361,685	764,692*	2,279,870

* As set out in Note 46 to the financial statements, other reserves relates 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.

Statements of Changes in Equity

for the financial year ended 31 December 2007 (continued)

Group	Note	Issued and fully paid ordinary shares of RM1 each	Non-distributable	Distributable		
		Share Capital RM'000	Available-for-sale Reserve RM'000	Retained Profits RM'000	Other Reserves RM'000	Total RM'000
Balance as at 1 January 2006		150,000	20,702	1,194,586	289,888	1,655,176
Revaluation of available-for-sale investment securities (net)		–	(5,476)	–	–	(5,476)
Deferred tax on revaluation of available-for-sale investments securities		–	(3,959)	–	–	(3,959)
Income and expenses recognised directly in equity		–	(9,435)	–	–	(9,435)
Net profit for the financial year		–	–	270,899	–	270,899
Total recognised income and expenses for the financial year		–	(9,435)	270,899	–	261,464
Transfer to other reserve		–	–	(177,629)	177,629	–
Final dividends in respect of financial year ended 31 December 2005		–	–	(10,800)	–	(10,800)
Interim dividends in respect of financial year ended 31 December 2006		–	–	(5,400)	–	(5,400)
Balance as at 31 December 2006	21 & 22	150,000	11,267	1,271,656	467,517*	1,900,440

* As set out in Note 46 to the financial statements, other reserves relates 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.

Statements of Changes in Equity

for the financial year ended 31 December 2007 (continued)

	Note	Issued and fully paid ordinary shares of RM1 each	Non-distributable	Distributable	
		Share Capital RM'000	Available-for-sale Reserve RM'000	Retained Profits RM'000	Total RM'000
Company					
Balance as at 1 January 2007		150,000	11,276	1,271,656	1,432,932
Revaluation of available-for-sale investment securities (net)		–	(10,063)	–	(10,063)
Deferred tax on revaluation of available-for-sale investments securities		–	2,666	–	2,666
Income and expenses recognised directly in equity		–	(7,397)	–	(7,397)
Net profit for the financial year		–	–	117,644	117,644
Total recognised income and expenses for the financial year		–	(7,397)	117,644	110,247
Final dividends in respect of financial year ended 31 December 2006		–	–	(10,950)	(10,950)
Interim dividends in respect of financial year ended 31 December 2007		–	–	(5,475)	(5,475)
Balance as at 31 December 2007	21 & 22	150,000	3,879	1,372,875	1,526,754

Statements of Changes in Equity

for the financial year ended 31 December 2007 (continued)

	Note	Issued and fully paid ordinary shares of RM1 each	Non-distributable	Distributable	
		Share Capital RM'000	Available-for-sale Reserve RM'000	Retained Profits RM'000	Total RM'000
Company					
Balance as at 1 January 2006		150,000	20,702	1,194,586	1,365,288
Revaluation of available-for-sale investment securities (net)		–	(5,463)	–	(5,463)
Deferred tax on revaluation of available-for-sale investments securities		–	(3,963)	–	(3,963)
Income and expenses recognised directly in equity		–	(9,426)	–	(9,426)
Net profit for the financial year		–	–	93,270	93,270
Total recognised income and expenses for the financial year		–	(9,426)	93,270	83,844
Final dividends in respect of financial year ended 31 December 2005		–	–	(10,800)	(10,800)
Interim dividends in respect of financial year ended 31 December 2006		–	–	(5,400)	(5,400)
Balance as at 31 December 2006	21 & 22	150,000	11,276	1,271,656	1,432,932

Cash Flow Statements
for the financial year ended 31 December 2007

	Note	Group		Company	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
OPERATING ACTIVITIES					
Net profit for the financial year		403,629	270,899	117,644	93,270
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		(16,944)	(364)	(2,964)	483
Amortisation of premium less accretion of discount on Islamic debt securities		(11,323)	2,024	(11,323)	2,024
Accretion of discount on mortgage assets		(179,836)	(109,583)	(23,017)	–
Accretion of discount on Islamic mortgage assets		(117,467)	(92,257)	–	–
Income from Islamic debt securities		(11,866)	(12,099)	(11,866)	(12,099)
Interest income		(982,224)	(1,027,078)	(710,287)	(834,551)
Income from Islamic assets		(199,790)	(113,789)	–	–
Other non-operating income		–	(957)	–	(957)
Interest expense		795,707	891,910	587,138	717,274
Profit attributable to Islamic bondholders		142,800	93,683	–	–
Depreciation of property and equipment		653	527	653	527
Amortisation of intangible assets		2,259	2,070	2,259	2,070
Gain on disposal of property and equipment		(80)	(36)	(80)	(36)
Gain on disposal of available-for-sale investment securities		(7,150)	(369)	(7,146)	(369)
Unrealised gain on revaluation of interest rate swap		(205)	(4,143)	(205)	(4,143)
Allowance for impairment losses on mortgage assets and Islamic mortgage assets		17,977	–	2,856	–
Intangible assets written off		9	128	9	128
Taxation		136,526	91,483	44,116	34,466
Zakat		1,519	1,203	1,519	1,203
Operating loss before working capital changes		(25,806)	(6,748)	(10,694)	(710)
Decrease in amounts due from counter parties		2,590,610	5,289,293	2,590,610	5,289,293
Increase in Islamic financing debts		(1,707,148)	(2,573,503)	(1,707,148)	(2,573,503)
(Increase)/Decrease in mortgage assets		(4,555,375)	337,408	(2,529,927)	–
(Increase)/Decrease in Islamic mortgage assets		(1,921,189)	122,041	–	–
Decrease/(Increase) in other assets		6,482	(370)	(6,931)	(9,749)
Increase/(Decrease) in unsecured bearer bonds and notes		248,477	(5,675,731)	248,477	(5,675,731)
Increase in Islamic bonds		1,311,773	2,745,643	1,311,773	2,745,643
Increase in residential mortgage-backed securities		1,830,000	–	–	–
Increase in Islamic residential mortgage-backed securities		2,110,000	–	–	–
Increase in other liabilities		31,753	8,411	35,638	8,414
Cash (utilised in)/generated from operating activities		(80,423)	246,444	(68,202)	(216,343)

Cash Flow Statements

for the financial year ended 31 December 2007 (continued)

	Note	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Interest received		829,547	1,038,706	619,734	843,864
Income received from Islamic assets		159,099	115,642	–	–
Interest paid		(788,996)	(958,055)	(587,496)	(783,419)
Profit attributable to Islamic bondholders		(135,780)	(93,683)	–	–
Payment of zakat		(992)	(1,163)	(992)	(1,163)
Payment of taxation		(65,270)	(66,060)	(35,210)	(33,060)
Net cash (utilised in)/generated from operating activities		(82,815)	281,831	(72,166)	(190,121)
INVESTING ACTIVITIES					
Purchase of:					
Investments		(1,138,966)	(462,665)	(926,989)	(95,000)
Property and equipment		(940)	(960)	(940)	(960)
Intangible assets		(4,991)	(3,917)	(4,991)	(3,917)
Income received from Islamic debt securities		–	4,282	–	4,282
Proceeds received from disposal of property and equipment		80	100	80	100
Proceeds received from disposal of intangible assets		96	–	96	–
Proceeds from disposal of available-for-sale investment securities		851,899	200,646	851,899	200,646
Redemption of investments		–	145,077	–	145,077
Redemption of interest rate swap		–	(4,307)	–	(4,307)
Net cash (utilised in)/generated from investing activities		(292,822)	(121,744)	(80,845)	245,921
FINANCING ACTIVITIES					
Payment of dividends		(16,425)	(16,200)	(16,425)	(16,200)
Net cash utilised in financing activities		(16,425)	(16,200)	(16,425)	(16,200)
Net (decrease)/increase in cash and cash equivalents		(392,062)	143,887	(169,436)	39,600
Cash and cash equivalents as at beginning of the financial year		1,934,478	1,790,591	1,436,668	1,397,068
Cash and cash equivalents as at end of the financial year		1,542,416	1,934,478	1,267,232	1,436,668
Analysis of cash and cash equivalents:					
Cash and short-term funds	5	1,042,271	1,252,378	767,232	1,236,668
Deposits and placements with financial institutions	6	500,145	682,100	500,000	200,000
		1,542,416	1,934,478	1,267,232	1,436,668

Notes to the Financial Statements

1 GENERAL INFORMATION

The principal activities of the Company consist of purchases of mortgage loans and hire purchase and leasing debts from primary lenders approved by the Company and the issue of bonds and notes to finance the purchases. The Company also purchases Islamic house financing debts and Islamic hire purchase debts and issues bonds under Islamic principles. In 2007, the Company's principal activities include the purchases without recourse ("PWOR") of mortgage assets.

In addition, the Company provides administrative services to its subsidiary and Special Purpose Entities (“SPE”). The principal activities of the subsidiary consist of 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 of mortgage assets and Islamic mortgage assets.

The principal activities of Cagamas SME Berhad (“CSME”), its SPE, consist of issuance of bonds to finance the purchases of the Small and Medium Enterprise (“SME”) loans via cash or synthetic securitisations or a combination of both. In addition, the SPE could also be a swap counterparty and issuer of credit-linked notes in a synthetic securitisation transaction. The principal activities of BNM Sukuk Berhad (“BNM Sukuk”), its other SPE, involves undertaking the issuance of Islamic securities investment namely Sukuk BNM Ijarah based on Syariah principles to finance the purchase of the beneficial interest of land and building from Bank Negara Malaysia (“BNM”) and, thereafter to lease back the same land and building to BNM for the contractual period which is similar to the tenure of the Sukuk BNM Ijarah.

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

The address of the registered office and principal place of business of the Company is 19th Floor, West Wing, Menara Maybank, 100, Jalan Tun Perak, 50050 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 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 Company have been prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies in accordance with the Financial Reporting Standard (“FRS”), the Malaysian Accounting Standard Board (“MASB”) Approved Accounting Standards for Entities Other than Private Entities and comply with the provisions of the Companies’ Act, 1965.

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

The Islamic operations of the Group and Company refer to the purchase of Islamic house financing debts, Islamic hire purchase debts and Islamic mortgage assets from approved originators, issuance of debt securities under Syariah principles, and acquisition, investment in and trading of Islamic financial instruments. In the accounting for the Islamic operations, the Group and Company has, when necessary, modified its accounting policies to comply with the Syariah principles.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary made up to the end of the financial year. Further details are disclosed in Note 2.2 to the financial statements.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965, FRS, the MASB Approved Accounting Standards for Entities Other than Private Entities 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 revenues and expenses during the reported financial year. It also requires directors to exercise their judgement in the process of applying the company’s accounting policies. Although these estimates are based on the Directors’ best knowledge of current events and actions, actual results may differ.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

The areas involving a higher degree of judgement or complexity, or areas 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 applicable to the Group and Company and are effective

Amendments to published standards effective for the Group and Company's financial year ended 31 December 2007 and applicable to the Group and Company are as follows:

FRS 124	Related Party Disclosures

The Group and Company has also adopted the following Technical Release effective for the Group and Company's financial year ended 31 December 2007:

TR i-1	Accounting for Zakat on Business

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards, amendments to published standards and interpretations. All standards, amendments and interpretations adopted by the Group and Company require retrospective application.

(b) Standards early adopted by the Group and Company

The Group and Company has decided to adopt the following new FRS to provide the stakeholders more transparent and credible information:

FRS 139	Financial Instruments: Recognition and Measurement

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

The new and revised standards, amendments to published standards and interpretations that are applicable to the Group and Company, but which the Group and Company has not early adopted, are as follows:

FRS 112	Income Taxes (effective for accounting periods beginning on or after 1 July 2007)

This revised standard removes the requirements that prohibit recognition of deferred tax on unutilised reinvestment allowances or other allowances in excess of capital allowances. The Group and Company will apply this standard from financial periods beginning on 1 January 2008. Management has assessed that there will be no material impact to the financial statements of the Group and Company upon adoption of this FRS.

Other revised standards (effective for accounting periods beginning on or after 1 July 2007) that have no significant changes compared to the original standards:

FRS 107	Cash Flow Statements
FRS 118	Revenue
FRS 137	Provisions, Contingent Liabilities and Contingent Assets

The Group and Company will apply these standards from financial periods beginning on 1 January 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(d) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and are not relevant to the Group and Company

FRS 111	Construction Contracts
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance (effective for accounting periods beginning on or after 1 July 2007)
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operations (effective for accounting periods beginning on or after 1 July 2007)
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities (effective for accounting periods beginning on or after 1 July 2007)
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments (effective for accounting periods beginning on or after 1 July 2007)
IC Interpretation 5	Rights to Interests arising from Decommission, Restoration and Environmental Rehabilitation Funds (effective for accounting periods beginning on or after 1 July 2007)
IC Interpretation 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for accounting periods beginning on or after 1 July 2007)
IC Interpretation 7	Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies (effective for accounting periods beginning on or after 1 July 2007)
IC Interpretation 8	Scope of FRS 2 (effective for accounting periods beginning on or after 1 July 2007)

2.2 Economic entities in the Group

(a) Subsidiaries

Subsidiaries are those corporations, partnerships or other entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated using the purchase method of accounting except for certain business combinations (as disclosed in (b)) 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 FRS122$_{2004}$ "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 $FRS122_{2004}$, 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 agreement dates on/after 1 January 2006.

The Group has taken advantage of the exemption provided by $FRS122_{2004}$ and FRS 3 to apply these Standards prospectively. Accordingly, business combinations entered into prior to the respective effective 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.

Intragroup transactions, balances and unrealised gains on transactions between Group 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 is recognised in the consolidated income statement.

(b) Special Purpose Entities ("SPE")

An SPE shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity. In the context of an SPE, control may arise through the predetermination of the activities of the SPE (operating on "autopilot") or otherwise. The application of the control concept requires, in each case, judgement in the context of all relevant factors.

Control over another entity requires having the ability to direct or dominate its decision-making, regardless of whether this power is actually exercised. Under the definitions of FRS 127, the ability to govern decision-making alone, however, is not sufficient to establish control. The ability to govern decision-making must be accompanied by the objective of obtaining benefits from the entity's activities.

The Group has not consolidated BNM Sukuk and CSME as it cannot be concluded that the Company has control over these SPE.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Amounts due from counter parties

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

The purchase of "Mortgage loans and hire purchase and leasing debts" was reclassified as "Amounts due from counter parties" on the balance sheet in accordance with a Guideline issued by BNM to the financial institutions on 31 July 2001. However, the Company and the counter parties to these transactions still consider the transactions to be sales and purchases.

The Company and the relevant counter parties have entered into agreements which state that any accounting reclassification is only to accommodate accounting convention and/or to comply with the directives of the regulatory authorities, and does not reflect or change the intention of the parties to effect true absolute sales.

As at the balance sheet date, amounts due from counter parties in respect of mortgage loans and hire purchase and leasing debts are stated at their unpaid principal balances due to the Company. Interest income on amounts due from counter parties is recognised on an accrual basis and computed at the respective interest rates based on monthly rest.

2.4 Mortgage assets and Islamic mortgage assets

Mortgage assets and Islamic mortgage assets are acquired by the Group and Company from the GOM ("the originator") at fair values. The originator acts as servicer and remits the principal and interest/income from the mortgage assets and Islamic mortgage assets to the Group and Company at specified intervals as agreed by both parties.

As at the balance sheet date, mortgage assets and Islamic mortgage assets acquired are stated at their unpaid principal balances due to the Group and Company, adjusted for unaccreted discount. Interest income/income on mortgage assets and Islamic mortgage 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 Islamic mortgage assets acquired is accreted to the income statement over the term of the mortgage assets and Islamic mortgage assets using the effective yield method.

2.5 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 and sales of investments are recognised on the date the Group and Company commit to purchase or sell the asset. Investments are derecognised when the Group and Company has transferred substantially all risks and rewards of ownership.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Available-for-sale ("AFS") investment securities (continued)

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.

At each balance sheet 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.

Interest from AFS investment securities are recognised on an accrual basis. The amortisation of premium and accretion of discount on AFS investment securities are recognised as interest income using the effective yield method.

In prior years, Malaysian Government securities, long-term private debt securities and Islamic debt securities were stated at cost adjusted for amortisation of premium or accretion of discount to maturity date.

2.6 Investments in subsidiary and SPE

Investments in subsidiary and SPE 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. See accounting policy on impairment of assets in Note 2.8 to the financial statements and on critical accounting estimates and assumptions in Note 3 to the financial statements.

2.7 Property and equipment

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%
Work-in-progress	0%

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 Company 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 period in which they are incurred.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy on impairment of assets in Note 2.8 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)

2.8 Impairment of assets

(a) Financial assets

The Group and Company assesses at each balance sheet 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.

In the case of investment securities classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are 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. Impairment loss recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as securities AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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

2.9 Income recognition

Interest income and income on Islamic assets are recognised on an accrual basis. Accretion of discount is recognised on an effective yield basis.

2.10 Premium and discount on unsecured bearer bonds

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

2.11 Income taxes

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit and loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Income taxes (continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised. Deferred tax is recognised on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

2.12 Cash and cash equivalents

For the purpose of cash flow statement, 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.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

2.14 Segment reporting

Segment reporting is presented for enhanced assessment of the Group's risks and returns. A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and return that are different from those components.

Segment revenue, expenses, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expenses, assets and segment liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

2.15 Derivative financial instruments

Interest rate swap ("IRS") are used as hedging tools to support issuance of fixed rate bonds to fund floating rate purchases of mortgage loans. In addition, IRS are also used by the Company to economically hedge the issuance of its debt securities. Further details of the IRS are disclosed in Note 38 to the financial statements.

Fair value of IRS is recognised at inception on the balance sheet, and subsequent changes in fair value as a result of fluctuation in market interest rates are recorded as derivative assets (favourable) or derivatives liabilities (unfavourable). Losses and gains from the changes in fair value are taken to the income statement.

2.16 Provisions

Provisions are recognised when the Group and Company has 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 Company expects a provision to be reimbursed (for example, under an insurance contract) the reimbursement is recognised as separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Provisions (continued)

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

2.17 Zakat

The Group and Company recognises its obligations towards the payment of zakat on business. Zakat for the current period is recognised when the Group and 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 Company has been in operation for at least 12 months, ie for the period known as haul.

Zakat rates enacted or substantively enacted by the balance sheet date are used to determine the zakat expense. The rate of zakat on business, as determined by National Fatwa Council for 2007 is 2.5% of the zakat base. The zakat base of the Group and Company is determined based on the profit after tax of each companies 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.

2.18 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 and Company.

(b) Defined contributions plans

The Group and the Company contributes to the Employees' Provident Fund ("EPF"), the national defined contribution plan. The contributions to EPF are charged to the income statement in the year to which they relate. Once the contributions have been paid, the Group and the Company 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.

2.19 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 (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 and Company, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Intangible assets (continued)

(b) Service rights to transaction administration and administrator fees

Service rights to transaction administration and administrator fees ("Service Rights") represents secured rights to receive expected future economic benefits by way of transaction administration and administrator fees for RMBS and 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.

Service rights are tested annually for any indication of impairment and carried at cost less accumulated amortisation and accumulated impairment losses. 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.

2.20 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 balance sheet date, RMBS and IRMBS are stated at their nominal values.

Interest expense on RMBS and profit attributable to IRMBS are recognised on an accrual basis and computed at the respective interest/profit rates.

2.21 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 balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet but as an appropriation from retained earnings to a "proposed dividend reserve". Upon the dividend becoming payable, it will be accounted for as a liability.

2.22 Functional and presentation currency

Items included in the financial statements of the Group and 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 and Company's functional and presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Financial instruments

(a) Description

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

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

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

(b) Financial instruments recognised on the balance sheet

The particular recognition method adopted for the financial instruments recognised on the balance sheet is disclosed in the individual accounting policy statements associated with each item.

(c) Financial instruments not recognised on the balance sheet

The Group and Company is a party to financial instruments that comprise IRS agreements. Fair value of IRS is recognised at inception on the balance sheet, and subsequent changes in fair value as a result of fluctuation in market interest rates are recorded as derivative assets (favourable) or derivatives liabilities (unfavourable). Losses and gains from the changes in fair value are taken to the income statement.

(d) Fair value estimation for disclosure purpose

The fair value of publicly traded derivatives and securities is based on quoted market prices at the balance sheet date. The fair value of IRS is calculated as the present value of the estimated future cash flows.

In assessing fair values of other financial instruments, the Group and Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet 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 and Company 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 are assumed to approximate their fair values.

2.24 Contingent liabilities and contingent assets

The Group and Company does 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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Contingent liabilities and contingent assets (continued)

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 Company. The Group and Company does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Estimates and judgments 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.

(a) Fair value of financial instruments

(i) Derivatives and AFS investment securities

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

(ii) Mortgage assets and Islamic mortgage assets

The Group and Company acquired mortgage assets and Islamic mortgage assets from GOM at fair values. The fair values of mortgage assets and Islamic mortgage assets were lower than their carrying values at the date of acquisition. The Group and Company accretes the discounts using the effective yield method, after adjustment for prepayment. The accounting estimates related to deferred discount are critical accounting estimates because they involve significant judgments and assumptions about borrower's prepayment patterns in various interest/profit rate environments that involve a significant degree of uncertainty. The Group and Company evaluates whether it is necessary to change the estimated prepayment rates used in the accretion calculation based on changes in interest/profit rates and expected mortgage prepayments. Estimates of the sensitivity of prepayments to changes in interest/profit rates are reassessed and actual prepayments are compared against the anticipated prepayments.

If changes are necessary, the constant effective yield is recalculated and the net interest/profit income in the current reporting period is adjusted for the amount of discounts that would have been recorded if the new effective yield had been applied since acquisition of the mortgage assets and Islamic mortgage assets.

(b) Impairment

(i) AFS investment securities

The Group and Company determines that AFS investment securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group and Company evaluates among other factors, the normal volatility in market price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(b) Impairment (continued)

(ii) Intangibles

The Group and Company determines that intangible assets with finite useful lives are impaired when there is an indication that the asset may be impaired.

The recoverable amount of an intangible asset not yet available for use is to be measured annually, irrespective of whether there is any indication that it may be impaired. This is because the ability of an intangible asset to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use.

An impairment loss is recognised on any shortfall between carrying amount and recoverable amount.

(iii) Mortgage assets and Islamic mortgage assets

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

(c) Securitisations and SPE

The Company incorporates its SPE primarily for the purpose of asset securitisation transactions. The Group does not consolidate its SPE that it does not control. As it can sometimes be difficult to determine whether the Group controls an SPE, it makes judgments about its exposure to the risks and rewards, as well as about its ability to make financial and operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach clear conclusion. When assessing whether the Group has to consolidate an SPE, the Group evaluates a range of factors to determine control, including whether:

(i) the Group will obtain the majority of the benefits of the activities of a SPE;

(ii) the Group retains the majority of the residual ownership risks related to the assets in order to obtain the benefits from its activities;

(iii) the Group has decision-making powers to obtain the majority of the benefits; or

(iv) the activities of the SPE is being conducted on behalf of the Group according to the Group's specific business needs so that the Group obtains the benefits from the SPE's operations.

The Group consolidates an SPE if the assessment of the relevant factors indicates that the Group has control over these SPE.

(d) Discretionary bonus fee

The discretionary bonus fee to be paid to 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/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 and Company'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 and Company 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 and Company 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 and Company's aims 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.

Risk Management Structure

The Board of Directors has ultimate responsibility for management of risks associated with the Group and Company's operations and activities. The Board of Directors sets the risk appetite and tolerance level that are consistent with the Group and Company'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, procedures and infrastructure to manage the Group and Company'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 and coordinating the management of risks on an enterprise-wide basis.

Risks faced by the Group and Company

The Group and Company faces the following risks:

(a) Credit risk;
(b) Market risk;
(c) Liquidity risk; and
(d) Operational risk.

(a) Credit risk

Credit risk is the possibility that a borrower or counterparty fails to fulfill its financial obligations when they fall due. Credit risk arises in on balance sheet form such as lending and investments, and in off balance sheet form from guarantees and treasury hedging activities.

The Group and Company manages its credit risk by screening borrowers and counterparties, stipulates prudent eligibility criteria and conducts due diligence on loans to be purchased. The Group and Company 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.

4 RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Risks faced by the Group and Company (continued)

(b) Market risk

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

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

The Group and Company also uses derivative instruments such as IRS to manage and hedge its market risk exposure against fluctuations in interest rates.

(c) Liquidity risk

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

The Group and Company mitigates its liquidity risk by matching the timing of purchases of loans and debts with issuance of debt securities. The Group and 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. In addition, the Group and Company sets aside considerable reserve liquidity to meet any unexpected shortfall in cash flow or adverse economic conditions in the financial market.

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Group and Company has established and maintained comprehensive internal controls, systems and procedures that are subject to regular audit and review by internal auditors. The Group and Company has in place an established Business Continuity Plan to minimise the impact of any disaster and reduce the time to restore operations. The Group and Company conducts tests on its critical systems and processes on a regular basis.

The Group and Company has improved its system infrastructure to enhance efficiency, processing and reporting capabilities, and to minimise the likelihood of errors due to manual processes. The systems have built-in controls and validations that will enable the Group and Company to maintain and monitor limits.

Securitisation

To date, the Company has undertaken a total of RM13.2 billion securitisation of the GOM's staff housing loans through its wholly owned subsidiary, CMBS. In respect of securitisation, the rights of the bondholders are limited to the specific asset pool and there is no recourse to the other asset pools, or to CMBS or the Company.

Cagamas, as the Transaction Administrator and Administrator, administers and accounts for all receipts and payments and undertakes reconciliations as required. Pending payments of bond coupon and principal redemptions, available funds are reinvested according to the specifications of the Trust Deed. Cash flow statement and statement of cash and investment holdings for each pool are provided to the trustee periodically.

5 CASH AND SHORT-TERM FUNDS

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash and balances with banks and other financial institutions	226	137	172	98
Money at call and deposits placements maturing within one month	742,765	668,671	467,780	653,000
Mudharabah money at call and deposits placements maturing within one month	299,280	583,570	299,280	583,570
	1,042,271	1,252,378	767,232	1,236,668

6 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Licensed bank	500,145	682,100	500,000	200,000

7 AVAILABLE-FOR-SALE INVESTMENT SECURITIES

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
At fair value:				
Khazanah bonds	93,760	201,014	93,760	201,014
Private debt securities	838,776	378,505	239,282	10,007
Islamic debt securities	–	184,959	–	184,959
Negotiable instruments of deposits	149,398	–	149,398	–
	1,081,934	764,478	482,440	395,980

The maturity structure of AFS investment securities is as follows:

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Maturing within one year	818,633	578,235	388,680	209,737
One year to three years	93,760	186,243	93,760	186,243
Three years to five years	169,541	–	–	–
	1,081,934	764,478	482,440	395,980

8 AMOUNTS DUE FROM COUNTER PARTIES

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Relating to:				
Mortgage loans	9,889,305	8,671,122	9,889,305	8,671,122
Hire purchase and leasing debts	3,408,629	7,217,422	3,408,629	7,217,422
	13,297,934	15,888,544	13,297,934	15,888,544

The maturity structure of amounts due from counterparties is as follows:

Maturing within one year	7,494,734	6,819,785	7,494,734	6,819,785
One year to three years	3,852,121	6,329,438	3,852,121	6,329,438
Three years to five years	1,913,557	2,472,224	1,913,557	2,472,224
More than five years	37,522	267,097	37,522	267,097
	13,297,934	15,888,544	13,297,934	15,888,544

9 MORTGAGE ASSETS

Mortgage assets:				
Portfolio 2004-1	928,986	1,088,631	–	–
Portfolio 2005-2	1,963,399	2,031,810	–	–
Portfolio 2007-2	2,401,785	–	–	–
PWOR	2,550,088	–	2,550,088	–
	7,844,258	3,120,441	2,550,088	–

The maturity structure of the mortgage assets is as follows:

Maturing within one year	651,262	283,242	245,818	–
One year to three years	1,284,299	520,508	322,442	–
Three years to five years	1,088,110	501,286	312,338	–
More than five years	6,818,770	2,818,713	2,184,132	–
	9,842,441	4,123,749	3,064,730	–
Less : Unaccreted discount	(1,989,646)	(1,003,308)	(511,787)	–
Less : Allowance for impairment losses	(8,537)	–	(2,855)	–
	7,844,258	3,120,441	2,550,088	–

10 ISLAMIC MORTGAGE ASSETS

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Islamic mortgage assets:				
Portfolio 2005-1	2,006,686	2,050,388	–	–
Portfolio 2007-1	2,075,774	–	–	–
	4,082,460	2,050,388	–	–

The maturity structure of the Islamic mortgage assets is as follows:

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Maturing within one year	186,260	104,196	–	–
One year to three years	486,386	211,078	–	–
Three years to five years	444,410	235,985	–	–
More than five years	3,942,642	2,143,777	–	–
	5,059,698	2,695,036	–	–
Less : Unaccreted discount	(970,654)	(644,648)	–	–
Less : Allowance for impairment losses	(6,584)	–	–	–
	4,082,460	2,050,388	–	–

11 ISLAMIC FINANCING DEBTS

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Islamic house financing debts	2,691,610	609,422	2,691,610	609,422
Islamic hire purchase debts	4,271,187	4,646,227	4,271,187	4,646,227
	6,962,797	5,255,649	6,962,797	5,255,649

The maturity structure of Islamic financing debts is as follows:

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Maturing within one year	1,956,836	3,755,599	1,956,836	3,755,599
One year to three years	3,835,348	1,251,524	3,835,348	1,251,524
Three years to five years	1,170,613	248,526	1,170,613	248,526
	6,962,797	5,255,649	6,962,797	5,255,649

12 OTHER ASSETS

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Accrued interest receivables	312,005	156,054	131,300	33,447
Mortgage assets repurchased	57,350	66,271	–	–
Staff loans and financing	2,985	3,789	2,985	3,789
Deposits	209	207	209	207
Prepayments	328	403	328	403
Income receivables	94,042	54,867	–	–
	466,919	281,591	134,822	37,846

13 PROPERTY AND EQUIPMENT

Group and Company

	Office Equipment RM'000	Furniture and Fittings RM'000	Motor Vehicles RM'000	Work-in progress RM'000	Total RM'000
2007					
Cost					
As at 1 January 2007	2,615	836	1,021	51	4,523
Additions	853	87	–	–	940
Disposals	–	(18)	(301)	–	(319)
Reclassification	48	3	–	(51)	–
As at 31 December 2007	3,516	908	720	–	5,144
Accumulated Depreciation					
As at 1 January 2007	(1,590)	(432)	(535)	–	(2,557)
Charge for the year	(453)	(77)	(123)	–	(653)
Disposals	–	18	301	–	319
As at 31 December 2007	(2,043)	(491)	(357)	–	(2,891)
Net book value as at 31 December 2007	1,473	417	363	–	2,253
2006					
Cost					
As at 1 January 2006	2,882	713	968	–	4,563
Additions	332	132	445	51	960
Disposals	(599)	(9)	(392)	–	(1,000)
As at 31 December 2006	2,615	836	1,021	51	4,523
Accumulated Depreciation					
As at 1 January 2006	(1,860)	(375)	(726)	–	(2,961)
Charge for the year	(329)	(66)	(132)	–	(527)
Disposals	599	9	323	–	931
As at 31 December 2006	(1,590)	(432)	(535)	–	(2,557)
Net book value as at 31 December 2006	1,025	404	486	51	1,966

14 INTANGIBLE ASSET

Group and Company

	Service Right RM'000	Computer Software RM'000	Licenses RM'000	Computer Software Under Development RM'000	Total RM'000
2007					
Cost					
As at 1 January 2007	13,786	5,901	140	635	20,462
Additions	3,375	33	20	1,563	4,991
Disposals	–	(176)	–	–	(176)
Reclassification	–	1,353	–	(1,353)	–
As at 31 December 2007	17,161	7,111	160	845	25,277
Accumulated Amortisation					
As at 1 January 2007	(1,803)	(2,811)	(44)	–	(4,658)
Charge for the year	(1,093)	(1,053)	(23)	(90)	(2,259)
Disposals	–	71	–	–	71
Reclassification	–	(90)	–	90	–
As at 31 December 2007	(2,896)	(3,883)	(67)	–	(6,846)
Net book value as at 31 December 2007	14,265	3,228	93	845	18,431
2006					
Cost					
As at 1 January 2006	10,368	5,822	58	297	16,545
Additions	3,418	79	82	338	3,917
Disposals	–	–	–	–	–
As at 31 December 2006	13,786	5,901	140	635	20,462
Accumulated Amortisation					
As at 1 January 2006	(882)	(1,676)	(30)	–	(2,588)
Charge for the year	(921)	(1,135)	(14)	–	(2,070)
Disposals	–	–	–	–	–
As at 31 December 2006	(1,803)	(2,811)	(44)	–	(4,658)
Net book value as at 31 December 2006	11,983	3,090	96	635	15,804

Service rights are amortised over a straight line basis, over the tenure of the RMBS/IRMBS. The remaining amortisation period of the assets range from 7-20 years (2006: 8-19 years).

15 UNSECURED BEARER BONDS AND NOTES

Group and Company

	Year of Maturity	2007 Amount Outstanding RM'000	2007 Effective Interest rate %	2006 Amount Outstanding RM'000	2006 Effective Interest rate %
(a) Fixed Rate Bonds	2007	–	–	5,580,000	3.253-4.351
	2008	6,460,000	3.114-4.680	5,460,000	3.114-4.680
	2009	1,630,000	3.870-4.900	1,630,000	3.870-4.900
	2010	1,325,000	4.220-4.795	1,325,000	4.220-4.795
	2011	480,000	3.912-4.350	480,000	3.912-4.350
		9,895,000		14,475,000	
Add : Unaccreted premium		35		373	
Less : Unamortised discount		(5,002)		(13,003)	
		9,890,033		14,462,370	
(b) Short-term notes	2007	–		780,000	
	2008	3,065,000		–	
		3,065,000		780,000	
Less : Unamortised discount		(2,787)		(13,601)	
		3,062,213		766,399	
(b) Medium-term notes	2010	465,000	3.980	–	–
	2012	340,000	4.210	–	–
	2014	345,000	4.440	–	–
	2017	455,000	4.640	–	–
	2019	320,000	4.800	–	–
	2022	350,000	4.950	–	–
	2027	250,000	5.150	–	–
		2,525,000		–	
		15,477,246		15,228,769	

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
The maturity structure of unsecured bearer bonds and notes is as follows:				
Maturing within one year	9,519,183	6,346,596	9,519,183	6,346,596
One year to three years	3,418,065	7,078,536	3,418,065	7,078,536
Three years to five years	819,998	1,803,637	819,998	1,803,637
More than five years	1,720,000	–	1,720,000	–
	15,477,246	15,228,769	15,477,246	15,228,769

15 UNSECURED BEARER BONDS AND NOTES (CONTINUED)

(a) Fixed rate bonds

The fixed rate bonds are redeemable at par on the due dates, unless previously redeemed, together with the accrued interest where applicable.

(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.

16 ISLAMIC BONDS

Group and Company

	Year of Maturity	2007 Amount Outstanding RM'000	2007 Effective Interest rate %	2006 Amount Outstanding RM'000	2006 Effective Interest rate %
(a) Sanadat Mudharabah Cagamas	2007	–	–	560,000	–
	2008	120,000	–	120,000	–
	2009	50,000	–	50,000	–
		170,000		730,000	
(b) Sanadat Cagamas					
(i) Primary bonds	2007	–	–	700,000	3.509-3.650
	2009	300,000	4.225	300,000	4.225
		300,000		1,000,000	
(ii) Secondary bonds	2007	–	–	37,802	–
	2008	12,675	–	12,675	–
	2009	12,675	–	12,675	–
		325,350		1,063,152	
Less : Unamortised deferred expenses		(20,632)		(4)	
Less : Unamortised discount		(2)		(51,028)	
		304,716		1,012,120	
(c) Bithaman Ajil Islamic Securities					
(i) Primary bonds	2007	–	–	1,325,000	3.200-3.530
	2008	1,250,000	3.350-4.400	1,155,000	3.350-4.000
	2009	1,110,000	3.620-4.650	1,020,000	3.900-4.000
	2010	985,000	3.660-4.220	700,000	4.000-4.220
	2011	240,000	4.050-4.160	200,000	4.160
	2012	240,000	4.150	–	–
		3,825,000		4,400,000	

16 ISLAMIC BONDS (CONTINUED)

Group and Company (continued)

	Year of Maturity	2007 Amount Outstanding RM'000	2007 Effective Interest rate %	2006 Amount Outstanding RM'000	2006 Effective Interest rate %
(c) Bithaman Ajil Islamic Securities (continued)					
(ii) Secondary bonds	2007	–	–	165,204	–
	2008	136,475	–	109,346	–
	2009	94,690	–	70,928	–
	2010	39,714	–	22,870	–
	2011	14,930	–	4,160	–
	2012	4,980	–	–	–
		4,115,789		4,772,508	
Less : Unamortised deferred expenses		(238,053)		(313,949)	
		3,877,736		4,458,559	
(d) Islamic Commercial Papers	2008	720,000	3.610-3.650	–	–
		720,000		–	
(e) Islamic Medium Term Notes	2009	1,050,000	3.700	–	–
	2010	1,390,000	3.850	–	–
		2,440,000		–	
		7,512,452		6,200,679	

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
The maturity structure of Islamic bonds is as follows:				
Maturing within one year	2,105,480	2,606,050	2,105,480	2,606,050
One year to three years	4,919,070	2,680,204	4,919,070	2,680,204
Three years to five years	487,902	914,425	487,902	914,425
	7,512,452	6,200,679	7,512,452	6,200,679

16 ISLAMIC BONDS (CONTINUED)

(a) Sanadat Mudharabah Cagamas

Sanadat Mudharabah Cagamas are issued based on profit-sharing basis and are redeemable at par on the due dates unless there is principal diminution.

(b) Sanadat Cagamas

Sanadat Cagamas are issued under the Islamic principle of Bai' Bithaman Ajil with non-detachable secondary bonds. The non-detachable secondary bonds are redeemable on the due dates.

(c) Bithaman Ajil Islamic Securities

Bithaman Ajil Islamic Securities are issued under the Islamic principle of Bai' Bithaman Ajil with non-detachable secondary bonds. The non-detachable secondary bonds are redeemable on the due dates.

(d) Islamic Commercial Papers

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

(e) Islamic Medium Term Notes

Islamic Medium Term Notes are long term papers issued by the Company based on various Islamic principles. These Islamic bonds have tenures of more than 1 year and carry a profit which is determined at the point of issuance. Profit on these bonds is paid half-yearly/quarterly.

17 RESIDENTIAL MORTGAGE-BACKED SECURITIES

Group

		2007		2006	
	Year of Maturity	Amount Outstanding RM'000	Effective Interest rate %	Amount Outstanding RM'000	Effective Interest rate %
RMBS					
	2007	–	–	580,000	3.700
	2008	225,000	4.100	225,000	4.100
	2009	340,000	4.300	340,000	4.300
	2010	765,000	4.440	250,000	4.440
	2011	290,000	4.950	290,000	4.950
	2012	645,000	4.710	270,000	4.710
	2014	725,000	5.500	345,000	5.500
	2015	320,000	5.100	320,000	5.100
	2017	870,000	5.340	345,000	5.340
	2019	260,000	4.700	–	–
	2020	385,000	5.650	385,000	5.650
	2022	250,000	4.900	–	–
	2025	265,000	5.920	265,000	5.920
	2027	105,000	5.080	–	–
		5,445,000		3,615,000	

17 RESIDENTIAL MORTGAGE-BACKED SECURITIES (CONTINUED)

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
The maturity structure of the RMBS is as follows:				
Maturing within one year	225,000	–	–	–
One year to three years	1,105,000	1,145,000	–	–
Three years to five years	935,000	540,000	–	–
More than five years	3,180,000	1,930,000	–	–
	5,445,000	3,615,000	–	–

The RMBS have the following features:

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

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

(c) The RMBS are constituted by a Trust Deed made between the subsidiary and the Trustees, to act for the benefit of the bondholders.

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

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

18 ISLAMIC RESIDENTIAL MORTGAGE-BACKED SECURITIES

Group

		2007		2006	
	Year of Maturity	Amount Outstanding RM'000	Profit Rate %	Amount Outstanding RM'000	Profit Rate %
IRMBS	2008	250,000	3.410	250,000	3.410
	2010	545,000	3.840	215,000	3.840
	2012	515,000	4.240	260,000	4.240
	2014	270,000	3.780	–	-
	2015	515,000	4.710	515,000	4.710
	2017	810,000	5.010	410,000	5.010
	2019	245,000	4.020	–	–
	2020	400,000	5.270	400,000	5.270
	2022	320,000	4.170	–	–
	2027	290,000	4.340	–	–
		4,160,000		2,050,000	

18 ISLAMIC RESIDENTIAL MORTGAGE-BACKED SECURITIES (CONTINUED)

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
The maturity structure of the IRMBS is as follows:				
Maturing within one year	250,000	–	–	–
One year to three years	545,000	250,000	–	–
Three years to five years	515,000	215,000	–	–
More than five years	2,850,000	1,585,000	–	–
	4,160,000	2,050,000	–	–

The IRMBS have the following features:

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

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

(c) The IRMBS are constituted by a Trust Deed made between the subsidiary and the Trustees, to act for the benefit of the bondholders.

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

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

19 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deferred tax liabilities (before offsetting)	187,245	136,965	12,992	24,453
Deferred tax assets (before offsetting)	(166)	(376)	(166)	(376)
Deferred tax liabilities (after offsetting)	187,079	136,589	12,826	24,077
The movements during the financial year relating to deferred taxation are as follows:				
Balance as at beginning of the financial year	136,589	81,050	24,077	16,642
Charged to income statement	53,288	51,580	(8,585)	3,472
Debit to reserves	(2,798)	3,959	(2,666)	3,963
Balance as at end of the financial year	187,079	136,589	12,826	24,077

19 DEFERRED TAXATION (CONTINUED)

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

Group **2007** **Deferred tax liabilities**	**As at 1.1.2007 RM'000**	**Debit/(Credit) to Income Statement RM'000**	**Debit to Reserves RM'000**	**As at 31.12.2007 RM'000**
Excess of capital allowances over depreciation on property and equipment	1,456	(56)	–	1,400
Temporary difference relating to accretion of discount of AFS investment securities and mortgage assets	130,883	57,643	–	188,526
Temporary difference relating to general provision for impairment loss	–	(4,674)	–	(4,674)
Unrealised gains/(losses) on revaluation of AFS investment securities	4,187	–	(2,798)	1,389
Unrealised gains on revaluation of IRS	439	165	–	604
	136,965	53,078	(2,798)	187,245
Deferred tax assets				
Temporary difference relating to amortisation of premium of AFS investment securities	297	(297)	–	–
Unrealised losses on revaluation of IRS	79	87	–	166
	376	(210)	–	166

2006 **Deferred tax liabilities**	**As at 1.1.2006 RM'000**	**Debit/(Credit) to Income Statement RM'000**	**Debit to Reserves RM'000**	**As at 31.12.2006 RM'000**
Excess of capital allowances over depreciation on property and equipment	1,646	(190)	–	1,456
Temporary difference relating to accretion of discount of AFS investment securities and mortgage assets	80,973	49,910	–	130,883
Unrealised gains/(losses) on revaluation of AFS investment securities	–	228	3,959	4,187
Unrealised gains on revaluation of IRS	–	439	–	439
	82,619	50,387	3,959	136,965
Deferred tax assets				
Temporary difference relating to amortisation of premium of AFS investment securities	1,569	(1,272)	–	297
Unrealised losses on revaluation of IRS	–	79	–	79
	1,569	(1,193)	–	376

19 DEFERRED TAXATION (CONTINUED)

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

Company **2007**	**As at 1.1.2007 RM'000**	**Debit/(Credit) to Income Statement RM'000**	**Debit to Reserves RM'000**	**As at 31.12.2007 RM'000**
Deferred tax liabilities				
Excess of capital allowances over depreciation on property and equipment	1,456	(56)	–	1,400
Temporary difference relating to accretion of discount of AFS investment securities	18,595	(8,161)	–	10,434
Temporary difference relating to general provision for impairment loss	–	(743)	–	(743)
Unrealised gains/(losses) on revaluation of AFS investment securities	3,963	–	(2,666)	1,297
Unrealised gains on revaluation of IRS	439	165	–	604
	24,453	(8,795)	(2,666)	12,992
Deferred tax assets				
Temporary difference relating to amortisation of premium of AFS investment securities	297	(297)	–	–
Unrealised losses on revaluation of IRS	79	87	–	166
	376	(210)	–	166

2006	**As at 1.1.2006 RM'000**	**Debit/(Credit) to Income Statement RM'000**	**Debit to Reserves RM'000**	**As at 31.12.2006 RM'000**
Deferred tax liabilities				
Excess of capital allowances over depreciation on property and equipment	1,646	(190)	–	1,456
Temporary difference relating to accretion of discount of AFS investment securities	16,565	2,030	–	18,595
Unrealised gains/losses on revaluation of AFS investment securities	–	–	3,963	3,963
Unrealised gains on revaluation of IRS	–	439	–	439
	18,211	2,279	3,963	24,453
Deferred tax assets				
Temporary difference relating to amortisation of premium of AFS investment securities	1,569	(1,272)	–	297
Unrealised losses on revaluation of IRS	–	79	–	79
	1,569	(1,193)	–	376

20 OTHER LIABILITIES

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Zakat	1,767	1,240	1,767	1,240
Income attributable to bondholders	30,720	6,008	30,720	6,008
Accrued interest payables on:				
Unsecured bearer bonds and notes	134,269	135,098	134,269	135,098
RMBS	26,238	19,169	–	–
Profit attributable to:				
IRMBS	20,623	13,603	–	–
Other payables	27,105	11,143	23,039	8,746
	240,722	186,261	189,795	151,092

21 SHARE CAPITAL

Ordinary shares of RM1 each:

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Authorised:				
Balance as at beginning and end of the financial year	500,000	500,000	500,000	500,000
Issued and fully paid up:				
Balance as at beginning and end of the financial year	150,000	150,000	150,000	150,000

22 RESERVES

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Retained profits	1,361,685	1,271,656	1,372,875	1,271,656
Available-for-sale reserve	3,493	11,267	3,879	11,276
Other reserves (Note 45)	764,692	467,517	–	–
	2,129,870	1,750,440	1,376,754	1,282,932

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to pay dividends out of its entire retained profits as at 31 December 2007. The Company also has tax exempt income under Section 12 of the Income Tax (Amendments) Act, 1999 which can be paid out as tax exempt dividends.

23 INTEREST INCOME

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Interest income from:				
Amount due from counter parties relating to:				
Mortgage loans	417,380	435,538	417,380	435,538
Hire purchase and leasing debts	218,897	355,380	218,897	355,380
Mortgage assets	306,295	171,730	61,174	–
Mortgage assets repurchased	2,282	2,636	–	–
AFS investment securities	4,048	7,848	21	7,848
Deposits and placements with financial institutions	30,958	45,110	12,766	35,756
Repurchased agreements	2,315	8,807	–	–
Others	49	29	49	29
	982,224	1,027,078	710,287	834,551
Accretion of discount less amortisation of premium	187,883	109,946	25,981	(483)
	1,170,107	1,137,024	736,268	834,068

24 INCOME FROM ISLAMIC ASSETS

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Income from:				
Islamic mortgage assets	198,205	109,632	–	–
Deposits and placements with financial institutions	68	3,275	–	–
Islamic repurchase agreement	–	882	–	–
AFS investment securities	1,517	–	–	–
	199,790	113,789	–	–
Add : Accretion of discount	126,364	92,257	–	–
	326,154	206,046	–	–

25 INTEREST EXPENSE

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Interest expense on:				
Unsecured bearer bonds	470,838	701,631	470,838	701,631
Unsecured bearer notes	91,320	15,283	91,320	15,283
Medium-term notes	19,502	–	19,502	–
RMBS	208,569	174,635	–	–
Deposits and placements of financial institutions	5,478	360	5,478	360
	795,707	891,909	587,138	717,274

26 PROFIT ATTRIBUTABLE TO ISLAMIC BONDHOLDERS

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Profit attributable to:				
IRMBS	142,800	93,683	–	–

27 NON-INTEREST INCOME

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Income from Islamic debt securities	11,866	12,099	11,866	12,099
Other Income:				
Unrealised gains on revaluation of derivatives	205	4,143	205	4,143
Realised gains on IRS	174	3,024	174	3,024
Realised losses on IRS	(545)	(7,331)	(545)	(7,331)
Other non-operating income	355	5,389	8,454	5,389
Gain on disposal of AFS investment securities	7,150	369	7,146	369
Gain on disposal of property and equipment	80	36	80	36
Intangible assets written off	(9)	(129)	(9)	(129)
	19,276	17,600	27,371	17,600

28 OPERATING PROFIT

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
The following items have been charged in arriving at profit before taxation and zakat:				
Directors' remuneration (Note 29)	225	254	225	254
Rental of premises	757	757	757	757
Hire of equipment	179	174	179	174
Auditors' remuneration:				
Audit fee	58	98	58	98
Non-audit fee	30	43	30	43
Depreciation of property and equipment	653	527	653	527
Amortisation of intangible assets	2,259	2,070	2,259	2,070
Personnel cost:				
Salary and allowances	6,645	6,086	6,645	6,086
Bonus	4,405	2,157	4,405	2,157
Overtime	40	37	40	37
Defined contribution plan (EPF)	1,817	1,282	1,817	1,282
SOCSO	39	34	39	34

29 DIRECTORS' REMUNERATION

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

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Non-executive Directors:				
Fees	172	183	172	183
Other remuneration	53	71	53	71
	225	254	225	254

30 ALLOWANCE FOR IMPAIRMENT LOSSES ON MORTGAGE ASSETS AND ISLAMIC MORTGAGE ASSETS

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Allowance for impairment losses on mortgage assets land Islamic mortgage assets	17,977	–	2,856	–

31 TAXATION

(a) Tax charge for the financial year

Current tax	83,238	39,903	52,701	30,994
Deferred taxation (Note 19)	53,288	51,580	(8,585)	3,472
	136,526	91,483	44,116	34,466

(b) Reconciliation of income tax expense

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

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Profit before taxation	541,674	363,585	163,279	128,939
Tax calculated at tax rate of 20%	100	100	–	–
Tax calculated at tax rate of 27% (2006 : 28%)	150,199	101,664	44,085	36,103
Expenses not deductible for tax purposes	3,720	196	7,651	196
Deduction arises from zakat contribution	(268)	(326)	(268)	(326)
Change in tax rate	(17,225)	(10,034)	(7,352)	(1,390)
Temporary difference not recognised in prior year	–	(117)	–	(117)
Tax charge	136,526	91,483	44,116	34,466

32 NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM2,261,439,000 of the Group and RM1,508,323,000 of the Company respectively (2006: RM1,884,636,000 and RM1,417,128,000 for the Group and Company respectively) by the 150,000,000 shares of the Group and Company in issue.

Basic and diluted earnings per share is calculated by dividing the net profit for the financial year of RM403,629,000 of the Group and RM117,644,000 of the Company respectively (2006: RM270,899,000 and RM93,270,000 for the Group and Company respectively) by the 150,000,000 shares of the Group and Company in issue. For the diluted earnings per share calculation, no adjustment has been made to weighted number of ordinary shares in issue as there are no dilutive potential ordinary shares.

33 DIVIDENDS

Dividends paid, proposed and approved are as follows:

	Group and Company			
	2007		2006	
	Gross per share sen	Amount of dividend net of tax RM'000	Gross per share sen	Amount of dividend net of tax RM'000
Interim dividend paid	5.00	5,475	5.00	5,400
Final dividend proposed/paid	10.00	11,100	10.00	10,950
Special dividend approved	45.05	50,006	–	–
	60.05	66,581	15.00	16,350

At the forthcoming Annual General Meeting, final gross dividend in respect of the financial year ended 31 December 2007 of 10 sen per share (2006: 10 sen per share), less income tax of 26% (2006: 28%) amounting to RM11,100,000 (2006: RM10,950,000) will be proposed for shareholders' approval. A special gross dividend of 45.05 sen per share, less income tax of 26% amounting to RM50,005,500 was approved by the directors and payable to Cagamas Holdings Berhad for the purpose of capital injection into the joint venture company for engaging in the mortgage guarantee business.

34 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

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

Related parties	Relationship
Cagamas MBS Berhad ("CMBS")	Subsidiary
BNM Sukuk Berhad ("BNM Sukuk")	Wholly owned Special Purpose Entity ("SPE")
Cagamas SME Berhad ("CSME")	Wholly owned Special Purpose Entity ("SPE")
Bank Negara Malaysia ("BNM")	Other related party
Key management personnel	Other related party
Entities in which key management personnel have control	Other related party

BNM is regarded as a related party as per the definition of FRS 124 on Related Party Transactions.

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

34 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Related parties and relationships (continued)

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, hire purchase and leasing debts, Islamic house financing debts and Islamic hire purchase debts as well as issuance of unsecured debt securities are done at arm's length with the other shareholders of the Company. These transactions were carried out on commercial terms (i.e. terms and conditions obtainable in transactions with unrelated parties) and at market rates unless otherwise stated. These transactions have been disclosed on the balance sheet and income statement of the Group and Company.

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

	Subsidiary RM'000	Wholly owned SPE RM'000	BNM RM'000
2007			
Income			
Transaction administrator and administrator fees	8,099	48	–
Expenses			
Fully Automated System for Issuing and Tendering ("FAST") & Real-time Electronic Transfer of Funds and Securities ("RENTAS") charges	–	–	470
Amount due from			
Transaction administrator and administrator fees	1,253	48	–
BNM Current accounts	–	-	31
2006			
Income			
Transaction administrator and administrator fees	–	5,334	–
Expenses			
FAST & RENTAS charges	–	–	574
Amount due from			
Transaction administrator and administrator fees	–	693	-
BNM Current accounts	–	–	30

The amount due from subsidiary is unsecured, interest free and repayable in arrears on each Interest Payment/Profit Distribution Date.

In addition, the Company's key management personnel received remuneration for services rendered during the financial year. The total compensation paid to the Company's key management personnel for both Group and Company level were RM4,425,000 (2006: RM3,008,000).

The total remuneration paid to the Directors is disclosed in Note 29 to the financial statements.

35 INVESTMENT IN SUBSIDIARY AND SPE

	2007 RM	2006 RM
Investment in subsidiary and SPE:		
Unquoted shares at cost	6	6

The subsidiary and SPE of Cagamas Berhad are as follows:

Name	Principal activities	Interest in equity held by Cagamas Berhad 2007	Interest in equity held by Cagamas Berhad 2006
CMBS	Securitisation of mortgage assets and Islamic mortgage assets from GOM and issue of RMBS/IRMBS to finance the purchases.	100%	100%
BNM Sukuk	Issuance of Islamic securities to finance purchase of beneficial interest of land and building from BNM and thereafter lease back same land and building to BNM.	100%	100%
CSME	Securitisation of small and medium enterprise credit facilities via cash or synthetic securitisations or a combination of both.	100%	100%

BNM Sukuk was incorporated on 18 January 2006 for the purpose of undertaking the issuance of Islamic securities in accordance with Syariah principles under the auspices of BNM. The results and net assets of BNM Sukuk were not consolidated with Cagamas Berhad since the Group has no power to exercise control over the financial and operating policies in the SPE and it does not obtain economic benefits from its activities.

CSME was incorporated on 17 February 2006. CSME commenced their business of synthetic securitisations on 9 October 2007. The results and net assets of the CSME were not consolidated with Cagamas Berhad since the Group has no power to exercise control over the financial and operating policies in the SPE and it does not obtain economic benefits from its activities.

36 CAPITAL COMMITMENTS

	Group and Company 2007 RM'000	Group and Company 2006 RM'000
Capital expenditure:		
Authorised and contracted for	2,541	1,231
Authorised but not contracted for	–	72
Analysed as follows:		
Property and equipment	2,541	1,303

37 LEASE COMMITMENTS

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

Year	**RM'000**
Maturing within one year	859
One year to five years	332
	1,191

38 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The remaining terms and notional principal amounts of the outstanding IRS of the Group and Company at the balance sheet date were:

	Group and Company	
	2007	**2006**
	RM'000	**RM'000**
Maturing within one year	200,000	200,000
One year to three years	200,000	620,000
Three years to five years	220,000	760,000
More than five years	760,000	–
	1,380,000	1,580,000

The fair value of derivative financial assets and liabilities are further disclosed in Note 41 to the financial statements.

39 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 rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group and Company takes on the exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins 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 summarises the Group and Company's exposure to interest/profit rate risks. Included in the tables are the Group and Company'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 and Company's exposure to interest rate movements, are included in 'other assets' and 'other liabilities' under the heading "Non-interest bearing".

39 INTEREST/PROFIT RATE RISK (CONTINUED)

Group

2007	Effective Interest/ Profit Rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non-interest bearing RM'000	Transactions based on Islamic principles RM'000	Total RM'000
Cash and short-term funds	3.52	742,505	–	–	–	142	299,624	1,042,271
Deposits and placements with financial institutions	3.62	200,000	–	–	–	–	300,145	500,145
Available-for-sale investment securities	2.96	818,633	–	169,541	–	–	93,760	1,081,934
Amounts due from counter parties:								
Fixed rate portfolio	4.14	8,376,996	3,485,444	1,411,187	24,307	–	–	13,297,934
Mortgage assets	4.05	651,262	1,284,300	1,088,110	6,818,769	(1,998,183)	–	7,844,258
Islamic mortgage assets	4.00	–	–	–	–	–	4,082,460	4,082,460
Islamic financing debts	4.18	–	–	–	–	–	6,962,797	6,962,797
Other assets	1.10	8,244	18,057	15,597	25,622	317,053	111,990	496,563
Total assets		10,797,640	4,787,801	2,684,435	6,868,698	(1,680,988)	11,850,776	35,308,362
Unsecured bearer bonds and notes	3.99	9,519,183	3,418,065	819,998	1,720,000	–	–	15,477,246
Islamic bonds	3.98	–	–	–	–	–	7,512,452	7,512,452
RMBS	4.76	225,000	1,105,000	935,000	3,180,000	–	–	5,445,000
IRMBS	4.25	–	–	–	–	–	4,160,000	4,160,000
Other liabilities	2.03	851	2,981	2,161	–	276,382	151,419	433,794
Total liabilities		9,745,034	4,526,046	1,757,159	4,900,000	276,382	11,823,871	33,028,492
Shareholders' funds		–	–	–	–	2,279,870	–	2,279,870
Total liabililties and shareholders' funds		9,745,034	4,526,046	1,757,159	4,900,000	2,556,252	11,823,871	35,308,362
On-balance sheet Interest/profit sensitivity gap		1,052,606	261,755	927,276	1,968,698			
Interest rate swaps Interest/profit sensitivity gap		–	–	–	–			
Total interest/profit sensitivity gap		1,052,606	261,755	927,276	1,968,698			
Cumulative gap		1,052,606	1,314,361	2,241,637	4,210,335			

39 INTEREST/PROFIT RATE RISK (CONTINUED)

Group (continued)

2006	Effective Interest/ Profit Rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non-interest bearing RM'000	Transactions based on Islamic principles RM'000	Total RM'000
Cash and short-term funds	3.52	668,671	–	–	–	84	583,623	1,252,378
Deposits and placements with financial institutions	3.84	482,100	–	–	–	–	200,000	682,100
Available-for-sale investment securities	5.31	368,498	–	10,008	–	–	385,972	764,478
Amounts due from counter parties:								
Fixed rate portfolio	4.22	6,712,487	6,421,588	2,466,057	288,412	–	–	15,888,544
Mortgage assets	4.00	283,242	520,508	501,286	2,818,713	(1,003,308)	–	3,120,441
Islamic mortgage assets	4.00	–	–	–	–	–	2,050,388	2,050,388
Islamic financing debts	4.22	–	–	–	–	–	5,255,649	5,255,649
Other assets	3.49	8,920	14,614	14,238	31,262	178,038	65,577	312,649
Total assets		8,523,918	6,956,710	2,991,589	3,138,387	(825,186)	8,541,209	29,326,627
Unsecured bearer bonds and notes	3.85	6,346,596	7,078,536	1,803,637	–	–	–	15,228,769
Islamic bonds	3.94	–	–	–	–	–	6,200,679	6,200,679
RMBS	4.83	–	1,145,000	540,000	1,930,000	–	–	3,615,000
IRMBS	4.57	–	–	–	–	–	2,050,000	2,050,000
Other liabilities	-	–	–	–	–	310,312	21,427	331,739
Total liabilities		6,346,596	8,223,536	2,343,637	1,930,000	310,312	8,272,106	27,426,187
Shareholders' funds		–	–	–	–	1,900,440	–	1,900,440
Total liabililties and shareholders' funds		6,346,596	8,223,536	2,343,637	1,930,000	2,210,752	8,272,106	29,326,627
On-balance sheet Interest/profit sensitivity gap		2,177,322	(1,266,826)	647,952	1,208,387			
Interest rate swaps Interest/profit sensitivity gap		–	–	–	–			
Total interest/profit sensitivity gap		2,177,322	(1,266,826)	647,952	1,208,387			
Cumulative gap		2,177,322	910,496	1,558,448	2,766,835			

39 INTEREST/PROFIT RATE RISK (CONTINUED)

Company

2007	Effective Interest/ Profit Rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non-interest bearing RM'000	Transactions based on Islamic principles RM'000	Total RM'000
Cash and short-term funds	3.51	467,780	–	–	–	106	299,346	767,232
Deposits and placements with financial institutions	3.62	200,000	–	–	–	–	300,000	500,000
Available-for-sale investment securities	3.58	388,680	–	–	–	–	93,760	482,440
Amounts due from counter parties:								
Fixed rate portfolio	4.14	8,376,996	3,485,444	1,411,187	24,307	–	–	13,297,934
Mortgage assets	4.14	245,818	322,442	312,338	2,184,132	(514,642)	–	2,550,088
Islamic financing debts	4.18	–	–	–	–	-	6,962,797	6,962,797
Other assets	3.34	236	4,942	4,275	717	136,457	17,948	164,575
Total assets		9,679,510	3,812,828	1,727,800	2,209,156	(378,079)	7,673,851	24,725,066
Unsecured bearer bonds and notes	3.99	9,519,183	3,418,065	819,998	1,720,000	–	–	15,477,246
Islamic bonds	3.98	–	–	–	–	–	7,512,452	7,512,452
Other liabilities	4.24	851	2,981	2,161	–	171,879	30,742	208,614
Total liabilities		9,520,034	3,421,046	822,159	1,720,000	171,879	7,543,194	23,198,312
Shareholders' funds		–	–	–	–	1,526,754	–	1,526,754
Total liabililties and shareholders' funds		9,520,034	3,421,046	822,159	1,720,000	1,698,633	7,543,194	24,725,066
On-balance sheet Interest/profit sensitivity gap		159,476	391,782	905,641	489,156			
Interest rate swaps Interest/profit sensitivity gap			–		–		-	-
Total interest/profit sensitivity gap		159,476	391,782	905,641	489,156			
Cumulative gap		159,476	551,258	1,456,899	1,946,055			

39 INTEREST/PROFIT RATE RISK (CONTINUED)

Company (continued)

2006	Effective Interest/ Profit Rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non-interest bearing RM'000	Transactions based on Islamic principles RM'000	Total RM'000
Cash and short-term funds	3.52	653,000	–	–	–	45	583,623	1,236,668
Deposits and placements with financial institutions	3.75	–	–	–	–	–	200,000	200,000
Available-for-sale investment securities	5.31	–	–	10,008	–	–	385,972	395,980
Amounts due from counter parties:								
Fixed rate portfolio	4.22	6,712,487	6,421,588	2,466,057	288,412	–	–	15,888,544
Islamic financing debts	4.22	-	-	–	–	–	5,255,649	5,255,649
Other assets	3.49	-	42	1,711	1,011	56,123	10,710	69,597
Total assets		7,365,487	6,421,630	2,477,776	289,423	56,168	6,435,954	23,046,438
Unsecured bearer bonds and notes	3.85	6,346,596	7,078,536	1,803,637	–	–	–	15,228,769
Islamic bonds	3.94	–	–	–	–	–	6,200,679	6,200,679
Other liabilities		–	–	–	–	176,464	7,594	184,058
Total liabilities		6,346,596	7,078,536	1,803,637	–	176,464	6,208,273	21,613,506
Shareholders' funds		–	–	–	–	1,432,932	–	1,432,932
Total liabililties and shareholders' funds		6,346,596	7,078,536	1,803,637	–	1,609,396	6,208,273	23,046,438
On-balance sheet Interest/profit sensitivity gap		1,018,891	(656,906)	674,139	289,423			
Interest rate swaps Interest/profit sensitivity gap		–	–	–	–			
Total interest/profit sensitivity gap		1,018,891	(656,906)	674,139	289,423			
Cumulative gap		1,018,891	361,985	1,036,124	1,325,547			

39 INTEREST/PROFIT RATE RISK (CONTINUED)

The table represents a static position which provides an indication of the potential impact on the Group and Company's balance sheet 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 and Company's shareholders' funds, unsecured bearer notes or money market borrowings.

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

40 CREDIT RISK

The Group's counter parties are mainly the GOM and the financial institutions in Malaysia. The financial institutions are governed by the Banking and Financial Institutions Act, 1989 and Islamic Banking Act, 1983 and are subject to periodic reviews by BNM. The following tables summarises the Group and Company's exposure to credit risk as at the balance sheet date:

Group

2007	Cash and short-term funds	Deposits and placements with financial institutions	Available-for sale investment securities	Amount due from counter parties	Mortgage assets	Islamic mortgage assets	Islamic financing debts	Other assets	Total on-balance sheet items	Interest rate swaps	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Government bodies	32	–	93,760	–	7,844,258	4,082,460	–	391,700	12,412,210	–	12,412,210
Financial Institutions:											
Commercial banks	757,458	500,145	748,892	12,970,723	–	–	6,872,332	79,391	21,928,941	–	21,928,941
Investment/ Merchant banks	284,780	–	–	51,462	–	–	–	347	336,589	29,968	366,557
Communication, electricity, gas and water	–	–	–	149,927	–	–	90,465	385	240,777	–	240,777
Transportation	–	–	63,206	67,187	–	–	–	10	130,403	–	130,403
Leasing	–	–	–	58,635	–	–	–	81	58,716	–	58,716
Construction	–	–	–	–	–	–	–	–	–	–	–
Others	1	–	176,076	–	–	–	–	3,650	179,727	–	179,727
Total	1,042,271	500,145	1,081,934	13,297,934	7,844,258	4,082,460	6,962,797	475,564	35,287,363	29,968	35,317,331

40 CREDIT RISK (CONTINUED)

Group (continued)

2006	Cash and short-term funds RM'000	Deposits and placements with financial institutions RM'000	Available-for sale investment securities RM'000	Amount due from counter parties RM'000	Mortgage assets RM'000	Islamic mortgage assets RM'000	Islamic financing debts RM'000	Other assets RM'000	Total on-balance sheet items RM'000	Interest rate swaps RM'000	Total RM'000
Government bodies	29	–	201,014	–	3,120,441	2,050,388	–	241,359	5,613,231	–	5,613,231
Financial Institutions:											
Commercial banks	912,348	682,100	368,498	15,568,985	–	–	5,158,276	34,787	22,724,994	–	22,724,994
Investment/ Merchant banks	340,000	–	–	71,310	–	–	–	1,030	412,340	46,086	458,426
Communication, electricity, gas and water	–	–	75,298	166,428	–	–	97,373	1,923	341,022	–	341,022
Transportation	–	–	15,102	–	–	–	–	71	15,173	–	15,173
Leasing	–	–	10,019	81,821	–	–	–	176	92,016	–	92,016
Construction	–	–	5,055	–	–	–	–	148	5,203	–	5,203
Others	1	–	89,492	–	–	–	–	14,982	104,475	–	104,475
Total	1,252,378	682,100	764,478	15,888,544	3,120,441	2,050,388	5,255,649	294,476	29,308,454	46,086	29,354,540

40 CREDIT RISK (CONTINUED)

Company

2007	Cash and short-term funds RM'000	Deposits and placements with financial institutions RM'000	Available-for sale investment securities RM'000	Amount due from counter parties RM'000	Mortgage assets RM'000	Islamic financing debts RM'000	Other assets RM'000	Total on-balance sheet items RM'000	Interest rate swaps RM'000	Total RM'000
Government bodies	32	–	93,760	–	2,550,088	–	61,174	2,705,054	–	2,705,054
Financial Institutions:										
Commercial banks	482,419	500,000	149,398	12,970,723	–	6,872,332	76,676	21,051,548	–	21,051,548
Investment/ Merchant banks	284,780	–	–	51,462	–	–	347	336,589	29,968	366,557
Communication, electricity, gas and water	–	–	–	149,927	–	90,465	385	240,777	–	240,777
Transportation	–	–	63,206	67,187	–	–	10	130,403	–	130,403
Leasing	–	–	–	58,635	–	–	81	58,716	–	58,716
Construction	–	–	–	–	–	–	–	–	–	–
Others	1	–	176,076	–	–	–	4,903	180,980	–	180,980
Total	767,232	500,000	482,440	13,297,934	2,550,088	6,962,797	143,576	24,704,067	29,968	24,734,035

40 CREDIT RISK (CONTINUED)

Company (continued)

2006	Cash and short-term funds RM'000	Deposits and placements with financial institutions RM'000	Available-for sale investment securities RM'000	Amount due from counter parties RM'000	Mortgage assets RM'000	Islamic financing debts RM'000	Other assets RM'000	Total on-balance sheet items RM'000	Interest rate swaps RM'000	Total RM'000
Government bodies	29	–	201,014	–	–	–	3,002	204,045	–	204,045
Financial Institutions:										
Commercial banks	896,638	200,000	–	15,568,985	–	5,158,276	29,398	21,853,297	–	21,853,297
Investment/ Merchant banks	340,000	–	–	71,310	–	–	1,030	412,340	46,086	458,426
Communication, electricity, gas and water	–	–	75,298	166,428	–	97,373	1,923	341,022	–	341,022
Transportation	–	–	15,102	–	–	–	71	15,173	–	15,173
Leasing	–	–	10,019	81,821	–	–	176	92,016	–	92,016
Construction	–	–	5,055	–	–	–	148	5,203	–	5,203
Others	1	–	89,492	–	–	–	15,676	105,169	–	105,169
Total	1,236,668	200,000	395,980	15,888,544	–	5,255,649	51,424	23,028,265	46,086	23,074,351

The credit risk exposure for IRS is based on the credit exposure equivalent amounts as stated in BNM's circular dated 14 March 1997.

41 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 arm's length transaction. The information presented herein represents the estimates of fair values as at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a number of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values. In addition, fair value information for non-financial assets and liabilities such as property and equipment are excluded, as they do not fall within the scope of FRS 132, which requires the fair value information to be disclosed.

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 estimated fair values of the Group's and Company's financial instruments approximated their book values except for the following:

Group

	2007		2006	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Assets				
AFS investment securities	1,081,934	1,081,934	764,478	764,478
Amount due from counter parties	13,297,934	13,379,119	15,888,544	15,965,702
Mortgage assets	7,844,258	7,898,032	3,120,441	3,213,612
Islamic mortgage assets	4,082,460	4,104,578	2,050,388	2,060,762
Islamic financing debts	6,962,797	6,867,219	5,255,649	5,198,428
	33,269,383	33,330,882	27,079,500	27,202,982
Liabilities				
Unsecured bearer bonds and notes	15,477,246	14,288,426	15,228,769	15,249,771
Islamic bonds	7,512,452	7,021,084	6,200,679	6,215,193
RMBS	5,445,000	5,483,155	3,615,000	3,764,925
IRMBS	4,160,000	4,038,776	2,050,000	2,088,554
	32,594,698	30,831,441	27,094,448	27,318,443

The carrying amounts of Islamic financing debts of the Company were not reduced to their estimated fair values as the Directors are of the opinion that these financing have been given on a recourse basis and the amount will be recovered in full.

41 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Group (continued)

	2007 Notional Value RM'000	2007 Fair Value RM'000	2006 Notional Value RM'000	2006 Fair Value RM'000
Derivatives				
Asset				
IRS	590,000	7,768	1,580,000	10,286
Liability				
IRS	790,000	5,993	1,580,000	8,889

Company

	2007 Carrying Value RM'000	2007 Fair Value RM'000	2006 Carrying Value RM'000	2006 Fair Value RM'000
Assets				
AFS investment securities	482,440	482,440	395,980	395,980
Amount due from counter parties	13,297,934	13,379,119	15,888,544	15,965,702
Mortgage assets	2,550,088	2,475,773	–	–
Islamic financing debts	6,962,797	6,867,219	5,255,649	5,198,428
	23,293,259	23,204,551	21,540,173	21,560,110
Liabilities				
Unsecured bearer bonds and notes	15,477,246	14,288,426	15,228,769	15,249,771
Islamic bonds	7,512,452	7,021,084	6,200,679	6,215,193
	22,989,698	21,309,510	21,429,448	21,464,964

	2007 Notional Value RM'000	2007 Fair Value RM'000	2006 Notional Value RM'000	2006 Fair Value RM'000
Derivatives				
Asset				
IRS	590,000	7,768	1,580,000	10,286
Liability				
IRS	790,000	5,993	1,580,000	8,889

41 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following methods and assumptions were used to estimate the fair value of financial instruments as at the balance sheet 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) Amounts due from counter parties

The fair value of the fixed rate assets portfolio is based on the present value of estimated future cash flows discounted at the risk-adjusted rates at the balance sheet date. The fair value of the floating rate assets portfolio is based on their carrying amount as the repricing date of the floating rate assets portfolio is not greater than 6 months.

(c) Mortgage assets and Islamic mortgage assets

The fair value of the mortgage assets and Islamic mortgage assets are derived at using the present value of future cash flows discounted based on the Company's and its subsidiary, CMBS' respective weighted average cost of capital (“WACC”). The WACC is the mortgage assets and RMBS/IRMBS yield to maturity at the balance sheet date.

(d) AFS investment securities

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

(e) Islamic financing debts

The fair value of the Islamic financing debts is based on the present value of estimated future cash flows discounted at the risk-adjusted profit rates at the balance sheet date.

(f) Other financial assets

Other financial assets include accrued interest/profit receivables, other debtors and deposits. The fair value of other financial assets is estimated at their carrying amount.

(g) Unsecured bearer bonds and notes

The estimated fair value of unsecured bearer bonds is based on the estimated future cash flows discounted using current yield curve derived based on the quoted market prices at the balance sheet date. The fair value of notes is estimated at their carrying amount as notes have maturity of less than one year.

(h) Amount due (to)/from a subsidiary

The estimated fair value of amount due (to)/from a subsidiary approximated their book value due to short tenure of less than one year.

(i) RMBS and IRMBS

The estimated fair value of RMBS and IRMBS is based on the estimated future cash flows discounted using current yield curve appropriate for the remaining term of maturity.

41 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(j) Other financial liabilities

Other financial liabilities include accrued interest payable, profit attributable, creditors and accruals. The fair value of other financial liabilities is estimated at their carrying amount.

(k) Derivatives

The estimated fair value of the interest rate swaps is based on the discounted estimated future cash flows using the market interest rate at the balance sheet date.

42 RECLASSIFICATIONS OF COMPARATIVE FIGURES

Certain comparative figures of the Group have been reclassified to conform with the current year's presentation and the presentation requirement of FRS 101. The effect of the reclassifications on the financial statements are as follows:

	As previously reported	As restated	Financial impact
Balance Sheets			
Cash and short-term funds	1,526,412	1,252,378	274,034
Available-for-sale investment securities	490,444	764,478	(274,034)
Cashflow statements			
INVESTING ACTIVITIES			
Purchase of investments	(188,631)	(462,665)	274,034

43 SEGMENT REPORTING

The Group comprises the following business segments:

(a) Purchase With Recourse ("PWR")

The PWR scheme consists of purchase of mortgage loans, hire purchase and leasing debts and Islamic financing debts from the primary lenders approved by the Company. The loans and debts are acquired with recourse to the primary lenders should the loans and debts fail to comply with agreed prudential criteria.

(b) Purchase Without Recourse ("PWOR")

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

43 SEGMENT REPORTING (CONTINUED)

	Purchase with recourse RM'000	Purchase without recourse RM'000	Elimination RM'000	Total RM'000
2007				
Revenue				
External revenue	653,958	516,148	–	1,170,106
Total revenue	653,958	516,148	–	1,170,106
Results				
Segment results	147,562	394,112	–	541,674
Unallocated expenses	–	–	–	-
Profit from operations	147,562	394,112	–	541,674
Taxation	(39,184)	(97,342)	–	(136,526)
Zakat	(1,349)	(170)	–	(1,519)
Net profit for the year	107,029	296,600	–	403,629
Net assets				
Segment assets	21,960,979	13,348,637	(1,253)	35,308,363
Unallocated assets	–	–	–	–
Total assets	21,960,979	13,348,637	(1,253)	35,308,363
Segment liabilities	20,604,905	12,424,840	(1,253)	33,028,492
Unallocated liabilities	–	–	–	–
Total liabilities	20,604,905	12,424,840	(1,253)	33,028,492
Other information				
Capital expenditure	5,268	663	–	5,931
Depreciation and amortisation	2,586	326	–	2,912

43 SEGMENT REPORTING (CONTINUED)

	Purchase with recourse RM'000	Purchase without recourse RM'000	Elimination RM'000	Total RM'000
2006				
Revenue				
External revenue	834,068	509,002	–	1,343,070
Total revenue	834,068	509,002	–	1,343,070
Results				
Segment results	128,939	234,646	–	363,585
Unallocated expenses	–	–	–	–
Profit from operations	128,939	234,646	–	363,585
Taxation	(34,466)	(57,017)	–	(91,483)
Zakat	(1,203)	–	–	(1,203)
Net profit for the year	93,270	177,629	–	270,899
Net assets				
Segment assets	23,046,438	6,280,882	(693)	29,326,627
Unallocated assets	–	–	–	–
Total assets	23,046,438	6,280,882	(693)	29,326,627
Segment liabilities	21,613,506	5,813,374	(693)	27,426,187
Unallocated liabilities	–	–	–	–
Total liabilities	21,613,506	5,813,374	(693)	27,426,187
Other information				
Capital expenditure	4,877	–	–	4,877
Depreciation and amortisation	2,597	–	–	2,597

44 CAPITAL ADEQUACY

	Company 2007 RM'000	Company 2006 RM'000
The capital adequacy ratios are as follows:		
Tier I capital		
Paid-up capital	150,000	150,000
Other reserves	1,376,754	1,282,932
	1,526,754	1,432,932
Deferred tax liability	12,826	24,077
Total Tier I capital	1,539,580	1,457,009
Tier II capital		
Allowance for impairment losses on mortgage assets	2,856	–
Total Tier II capital	2,856	–
Total capital base	1,542,436	1,457,009
Capital ratios:		
Core and risk weighted	23.5%	28.9%
Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:		
0%	93,932	201,112
10%	–	–
20%	21,288,362	22,265,568
50%	3,153,016	61,675
100%	722,455	555,279
	25,257,765	23,083,634
Total risk-weighted assets	6,556,635	5,039,230

The above capital adequacy ratio calculations are based on the Guidelines issued by BNM to the banking institutions. Although the Company is not subject to the above Guidelines, disclosure of the capital adequacy ratios is made on a voluntary basis for information purposes.

45 ISLAMIC OPERATIONS

BALANCE SHEETS AS AT 31 DECEMBER 2007

	Note	Company 2007 RM'000	Company 2006 RM'000
ASSETS			
Cash and short-term funds	(a)	299,346	583,623
Deposits and placements with financial institutions	(b)	300,000	200,000
AFS investment securities	(c)	–	184,959
Islamic financing debts	(d)	6,962,797	5,255,650
Receivables		17,365	9,756
Other assets		148,637	135,902
TOTAL ASSETS		7,728,145	6,369,890
LIABILITIES			
Islamic bonds	(e)	7,512,452	6,200,679
Other liabilities	(f)	32,667	7,935
TOTAL LIABILITIES		7,545,119	6,208,614
ISLAMIC OPERATIONS' FUNDS		183,026	161,276
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		7,728,145	6,369,890

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	Company 2007 RM'000	Company 2006 RM'000
Total income attributable		263,185	227,490
Income attributable to the bondholders	(g)	(248,671)	(212,067)
Income attributable to the shareholders	(h)	14,514	15,423
Administration and general expenses		(596)	(704)
PROFIT BEFORE TAXATION AND ZAKAT		13,918	14,719
Taxation		(3,335)	(3,784)
Zakat		(1,519)	(1,203)
NET PROFIT FOR THE FINANCIAL YEAR		9,064	9,732

45 ISLAMIC OPERATIONS (CONTINUED)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Company			
	Allocated Capital Funds RM'000	AFS Reserve RM'000	Retained Profits RM'000	Total RM'000
Balance as at 1 January 2007	141,015	49	20,212	161,276
Revaluation of AFS investment securities (net)	–	(49)	–	(49)
Income and expenses recognised directly in equity	–	(49)	–	(49)
Net profit for the financial year	–	–	9,064	9,064
Total recognised income and expenses for the year	–	(49)	9,064	9,015
Transferred to Islamic operations	12,735	–	–	12,735
Balance as at 31 December 2007	153,750	–	29,276	183,026
Balance at 1 January 2006	86,015	386	10,480	96,881
Revaluation of AFS investment securities (net)	–	(337)	–	(337)
Income and expenses recognised directly in equity	–	(337)	–	(337)
Net profit for the financial year	–	–	9,732	9,732
Total recognised income and expenses for the year	–	(337)	9,732	9,395
Transferred to Islamic operations	55,000	–	–	55,000
Balance as at 31 December 2006	141,015	49	20,212	161,276

45 ISLAMIC OPERATIONS (CONTINUED)

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	Company 2007 RM'000	Company 2006 RM'000
OPERATING ACTIVITIES			
Net profit for the financial year		9,064	9,732
Adjustments for investment items and items not involving the movement of cash and cash equivalents:			
Amortisation of premium less accretion of discount on Islamic debt securities		(965)	2,024
Income accrued from Islamic debt securities		(1,366)	(6,158)
Gain on disposal of AFS investment securities		(22)	-
Taxation		3,335	3,784
Zakat		1,519	1,203
Operating profit before working capital changes		11,565	10,585
Increase in Islamic financing debts		(1,707,148)	(2,573,503)
Increase in other assets		(7,608)	(220,511)
Increase in Islamic bonds		1,311,773	2,745,643
Increase/(Decrease) in other liabilities		25,330	(1,311)
Cash utilised in operations		(366,088)	(39,097)
Payment of taxation		(4,460)	(3,784)
Payment of zakat		(992)	(1,163)
Net cash utilised in operating activities		(371,540)	(44,044)
INVESTING ACTIVITIES			
Purchase of investments		(259,165)	(95,000)
Redemption of investments		445,063	110,000
Income received from Islamic debt securities		1,365	224,775
Net cash generated from investing activities		187,263	239,775
Net (decrease)/increase in cash and cash equivalents		(184,277)	195,731
Cash and cash equivalents as at beginning of the financial year		783,623	587,892
Cash and cash equivalents as at end of the financial year		599,346	783,623
Analysis of cash and cash equivalents:			
Cash and short-term funds	(a)	299,346	583,623
Deposits and placements with financial institutions	(b)	300,000	200,000
		599,346	783,623

45 ISLAMIC OPERATIONS (CONTINUED)

(a) CASH AND SHORT-TERM FUNDS

	Company 2007 RM'000	Company 2006 RM'000
Cash and balances with banks and other financial institutions	66	53
Mudharabah money at call and deposit placements maturing within one month	299,280	583,570
	299,346	583,623

(b) DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed bank	300,000	200,000

(c) AFS INVESTMENT SECURITIES

At fair value:		
Islamic debt securities	–	184,959

The maturity structure of AFS investment securities is as follows:

Maturing within one year	–	179,876
One year to three years	–	5,083
	–	184,959

(d) ISLAMIC FINANCING DEBTS

Islamic house financing debts	2,691,610	609,422
Islamic hire purchase debts	4,271,187	4,646,228
	6,962,797	5,255,650

The maturity structure of Islamic financing debts is as follows:

Maturing within one year	1,956,836	3,755,600
One year to three years	3,835,348	1,251,524
Three years to five years	1,170,613	248,526
	6,962,797	5,255,650

45 ISLAMIC OPERATIONS (CONTINUED)

(e) ISLAMIC BONDS

	Company 2007 RM'000	2006 RM'000
Sanadat Mudharabah Cagamas	170,000	730,000
Sanadat Cagamas	304,716	1,012,120
Bithaman Ajil Islamic Securities	3,877,736	4,458,559
Islamic Medium Term Notes	720,000	–
Islamic Commercial Paper	2,440,000	–
	7,512,452	6,200,679

The maturity structure of Islamic bonds is as follows:

Maturing within one year	2,105,480	2,606,050
One year to three years	4,919,070	2,680,204
Three years to five years	487,902	914,425
	7,512,452	6,200,679

(f) OTHER LIABILITIES

Zakat	1,767	1,240
Income attributable to bondholders	30,720	6,008
Other liabilities	180	687
	32,667	7,935

(g) INCOME ATTRIBUTABLE TO THE BONDHOLDERS

Income from Islamic financing debts	242,829	198,730
Income from AFS investment securities	1,803	5,749
Income from deposits and placements with financial institutions	4,039	7,588
	248,671	212,067

Income attributable to the bondholders analysed by concepts is as follows:

Bai Al-Dayn	242,829	198,730
Mudharabah	4,039	7,590
Bai Bithaman Ajil	769	4,294
Murabahah	558	593
Musyarakah	476	860
	248,671	212,067

45 ISLAMIC OPERATIONS (CONTINUED)

(h) INCOME ATTRIBUTABLE TO THE SHAREHOLDERS

	Company	
	2007 RM'000	2006 RM'000
Expenses from Islamic financing debts	(2,054)	(1,929)
Income from AFS investment securities	550	410
Income from deposits and placements with financial institutions	16,018	16,942
	14,514	15,423

(Expenses)/Income attributable to the shareholders analysed by concepts is as follows:

Bai Al-Dayn	(2,054)	(1,929)
Mudharabah	16,018	16,941
Bai Bithaman Ajil	102	322
Murabahah	420	39
Musyarakah	28	50
	14,514	15,423

(i) CAPITAL ADEQUACY

Allocated capital funds	153,750	141,015
Other reserves	29,276	20,261
Tier I capital	183,026	161,276
Total capital base	183,026	161,276
Capital ratios:		
Core and risk weighted	12.0%	11.0%
Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:		
0%	435,248	135,955
10%	–	–
20%	7,189,506	5,949,843
50%	–	15,183
100%	90,656	268,909
	7,715,410	6,369,890
Total risk-weighted assets	1,528,558	1,466,469

The above capital adequacy ratio calculations are based on the Guidelines issued by BNM to the banking institutions. Although the Company is not subject to the above Guidelines, disclosure of the capital adequacy ratios is made on a voluntary basis for information purposes.

45 ISLAMIC OPERATIONS (CONTINUED)

(j) SYARIAH ADVISORS

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

46 DISCRETIONARY BONUS FEE

In the respective Servicing Agreements signed between GOM, CMBS, the Company and the Trustee, CMBS agreed to pay GOM a discretionary bonus fee, out of the retained profits of CMBS, to be determined by CMBS in respect of the services provided by 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.

47 SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

(a) Restructuring of Cagamas, its subsidiary and SPE

On 2 January 2008, the restructuring of the Cagamas Group was completed following the share swap of Cagamas Berhad with Cagamas Holdings Berhad ("Holding Company") in accordance with the agreement for the purchase of shares in Cagamas Berhad between Cagamas Holdings Berhad and the existing shareholders of Cagamas dated 1 October 2007. The share swaps of CMBS, CSME and BNM Sukuk from Cagamas Berhad to the Holding Company were also completed on the same date.

Cagamas Holdings Berhad will consolidate the financial results of its subsidiaries (Cagamas Berhad and CMBS) effective from 2 January 2008.

(b) Establishment of a Joint Venture Company

On 20 December 2007, Cagamas Holdings Berhad has signed a Joint Venture Agreement with the Hong Kong Mortgage Corporation ("HKMC") on the establishment of a Joint Venture Company ("JV Co.") to develop mortgage guarantee business in Malaysia and other countries. The joint venture will pioneer a mortgage guarantee program for both conventional and syariah-compliant mortgage loans originated by financial institutions in Malaysia.

The new JV Co. is to be incorporated in Malaysia and will be owned by Cagamas Holdings Berhad and HKMC in equal share (50:50) and is expected to commence business in the second half of 2008.

48 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 11 April 2008.

Statements by Directors
pursuant to Section 169(15) of the Companies Act, 1965

We, Dato' Ooi Sang Kuang and Dato' Sri Tay Ah Lek, two of the Directors of Cagamas Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 64 to 129 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2007 and of the results and cash flows of the Group and Company for the financial year ended on that date in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 11 April 2008.

DATO' OOI SANG KUANG
CHAIRMAN

DATO' SRI TAY AH LEK
DIRECTOR

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

I, Choy Khai Choon, the Officer primarily responsible for the financial management of Cagamas Berhad, do solemnly and sincerely declare that the financial statements set out on pages 64 to 129 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.

CHOY KHAI CHOON

Subscribed and solemnly declared by the abovenamed Choy Khai Choon at Kuala Lumpur in Malaysia on 11 April 2008, before me.

AHMAD B. LAYA
COMMISSIONER FOR OATHS

Report of the Auditors
to the members of Cagamas Berhad

We have audited the financial statements set out on pages 64 to 129. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities so as to give a true and fair view of :

   (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and

   (ii) the state of affairs of the Group and Company as at 31 December 2007 and of the results and cash flows of the Group and Company for the financial year ended on that date;

   and

(b) the accounting and other records and the registers required by the Act to be kept by the Group and Company have been properly kept in accordance with the provisions of the Act.

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

The auditors' report on the financial statements of the subsidiary was not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

PRICEWATERHOUSECOOPERS
(No. AF:1146)
Chartered Accountants

SOO HOO KHOON YEAN
(No. 2682/10/09 (J))
Partner of the firm