Financial Statements

Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements of the Group and the Company for the financial year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The Group subsidiary companies are Cagamas Berhad ("Cagamas") and Cagamas MBS Berhad ("CMBS").

The principal activities of Cagamas consist of purchase of mortgage loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issue of bonds and notes to finance the purchases. Cagamas also purchases Islamic home financing debts, Islamic hire purchase debts and Islamic personal financing debts and issue bonds based on Islamic principles.

The principal activities of the other subsidiary company, CMBS, 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 the mortgage assets and Islamic mortgage assets.

The principal activities of the Group's subsidiary companies and its Special Purpose Entities ("SPE") are also disclosed in Note 35 of the financial statements.

There was no significant change in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Net profit after taxation for the financial year	419,681	66,653

DIVIDENDS

There were no dividends paid or declared by the Company in 2007.

The dividends paid or declared by the Company since 31 December 2007 were as follows:

	RM'000
In respect of the financial year ended 31 December 2008:	
- a first interim dividend paid on 11 July 2008	11,100
- a second interim dividend paid on 3 December 2008	5,550
	16,650

RESERVES AND PROVISIONS

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

ISSUE OF SHARES

On 2 January 2008, the Company issued 150,000,006 ordinary shares of RM1.00 each at an issue price of RM1.00 per ordinary share as purchase consideration for the acquisition of Cagamas, CMBS, Cagamas SME Berhad ("CSME") and BNM Sukuk Berhad ("BNM Sukuk"). Please refer to Note 34 to the financial statements for further details.

RATING PROFILE OF THE BONDS

RAM Rating Services Berhad ("RAM") assigned a rating of AAA/P1 to the bonds and notes issued by the Group. Malaysian Rating Corporation Berhad ("MARC") has assigned ratings of AAA/AAA_{ID} and $MARC\text{-}1/MARC\text{-}1_{ID}$ to bonds and notes issued by the Group. In addition, RAM and MARC have also 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 of the Group involving mortgage loans, hire purchase and leasing debts, Islamic house financing debts, Islamic hire purchase debts and Islamic personal financing 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 Company.

DIRECTORS

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

Dato' Ooi Sang Kuang (Chairman)
Dato' Mohd Razif Abd Kadir
Tang Wing Chew
George Ratilal
Dato' Charon Wardini Mokhzani (appointed on 30 July 2008)
Dato' Sri Abdul Wahid Omar (appointed on 30 July 2008)
Choy Khai Choon (resigned on 16 April 2008)
Azizi Ali (resigned on 16 April 2008)

In accordance with Article 19.13 and 19.14 of the Company's Articles of Association, Tang Wing Chew retires by rotation at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

In accordance with Article 19.10 of the Company's Articles of Association, Dato' Charon Wardini Mokzani and Dato' Sri Abdul Wahid Omar who vacate office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFIT

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 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 28 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 a 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 OF THE FINANCIAL STATEMENTS

Before the income statements and balance sheets of the Group and the Company were made out, the Directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

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

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

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

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

(c) which have arisen which render adherence to the existing method of valuation of assets and liabilities of the Group and the 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 this financial year which, in the opinion of the Directors, will or may affect the ability of the Group and Company to meet its obligations when they fall due.

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

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

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

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

In the opinion of the Directors,

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

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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 47 to the financial statements.

AUDITORS

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

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

DATO' OOI SANG KUANG
CHAIRMAN

GEORGE RATILAL
DIRECTOR

Balance Sheets
as at 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
ASSETS					
Cash and short-term funds	5	250,748	1,042,271	6	–
Deposits and placements with financial institutions	6	1,288,650	500,145	–	–
Derivative financial instruments	38	11,795	7,768	–	–
Available-for-sale investment securities	7	1,276,140	1,081,934	–	–
Amounts due from counterparties	8	9,687,695	13,297,934	–	–
Mortgage assets	9	9,697,542	7,844,258	–	–
Islamic mortgage assets	10	6,178,367	4,082,460	–	–
Islamic financing debts	11	5,642,959	6,962,797	–	–
Tax recoverable		1,144	1,144	–	–
Deferred tax assets	20	14,054	–	–	–
Other assets	12	504,533	466,919	–	–
Investment in subsidiary and SPE	35	–	–	3,981,628	–
Interest in a joint venture company	15	49,996	–	50,000	–
Property and equipment	13	1,741	2,253	–	–
Intangible assets	14	18,138	18,431	–	–
Amount due from SPE		55	48	–	–
Amount due from joint venture company		476	-	218	–
TOTAL ASSETS		34,624,033	35,308,362	4,031,852	–
LIABILITIES					
Unsecured bearer bonds and notes	16	13,319,415	15,477,246	–	–
Islamic bonds	17	8,487,196	7,512,452	–	–
Derivative financial instruments	38	95,827	5,993	–	–
Residential mortgage-backed securities	18	5,220,000	5,445,000	–	–
Islamic residential mortgage-backed securities	19	3,910,000	4,160,000	–	–
Deposits and placements of financial institutions		465,000	–	–	–
Deferred tax liabilities	20	243,401	187,079	–	–
Provision for taxation		17,457	22,365	–	–
Other liabilities	21	243,698	218,357	–	–
Amount due to a subsidiary		–	–	221	–
TOTAL LIABILITIES		32,001,994	33,028,492	221	-
REPRESENTED BY:					
Share capital	22	150,000	150,000	150,000	–*
Reserves		2,472,039	2,129,870	3,881,631	–
SHAREHOLDERS' FUND		2,622,039	2,279,870	4,031,631	–
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		34,624,033	35,308,362	4,031,852	–
NET TANGIBLE ASSETS PER SHARE (RM)		17.36	15.08	26.88	–

* Paid up ordinary share capital of RM2

Income Statements
For the financial year ended 31 December 2008

	Note	Group		Company	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Interest income	24	1,214,309	1,181,973	–	–
Interest expense	25	(828,427)	(795,707)	–	–
Income from Islamic operations	45	236,529	193,419	–	–
Non-interest income	26	(1,548)	7,406	66,656	–
NET INCOME		620,863	587,091	66,656	–
Administration and general expenses		(13,552)	(13,178)	(3)	–
Personnel cost		(17,052)	(14,262)	–	–
Share of results in a joint venture company		(4)	–	–	–
OPERATING PROFIT		590,255	559,651	66,653	–
Allowance for impairment losses on mortgage assets and Islamic mortgage assets	29	(25,967)	(17,977)	–	–
PROFIT BEFORE TAXATION AND ZAKAT		564,288	541,674	66,653	–
Taxation	30	(142,532)	(136,526)	–	–
Zakat		(2,075)	(1,519)	–	–
NET PROFIT FOR THE FINANCIAL YEAR		419,681*	403,629*	66,653	–
EARNINGS PER SHARE (SEN)	31	279.79	269.10	44.44	–
DIVIDEND PER SHARE (SEN)	32			11.10	–

* As set out in Note 46 to the financial statements, net profit for the financial year of the Group includes profit for CMBS of RM250,544,000 (2007: RM285,985,000) 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 2008

Group

2008	Note	Issued and fully paid ordinary shares of RM1 each RM'000	Share premium relief reserve RM'000	Reverse acquisition relief reserve RM'000	Available-for-sale reserve RM'000	Cash flow hedge reserve RM'000	Retained earnings RM'000	Other reserves* RM'000	Total RM'000
Balance as at 1 January 2008		–#	–	–	3,493	–	1,361,685	764,692	2,129,870
Revaluation of available-for-sale investment securities (net)		–	–	–	1,120	–	–	–	1,120
Fair valuation of interest rate swap into cash flow hedge reserve		–	–	–	–	(82,329)	–	–	(82,329)
Transfer to income statement		–	–	–	–	47	–	–	47
Deferred taxation	20	–	–	–	(282)	20,582	–	–	20,300
Income and expenses recognised directly in equity		–	–	–	838	(61,700)	–	–	(60,862)
Net profit for the financial year		–	–	–	–	–	419,681	–	419,681
Total recognised income and expenses for the financial year		–	–	–	838	(61,700)	419,681	–	358,819
Transfer to share reserve		–	–	–	–	–	(250,554)	250,554	–
Arising from reverse acquisition of the Company	34	150,000	3,831,628	(3,831,628)	–	–	–	–	150,000
First interim dividends in respect of financial year ended 31 December 2008	32	–	–	–	–	–	(11,100)	–	(11,100)
Second interim dividends in respect of financial year ended 31 December 2008	32	–	–	–	–	–	(5,550)	–	(5,550)
Balance as at 31 December 2008	22 & 23	150,000	3,831,628	(3,831,628)	4,331	(61,700)	1,514,162	1,015,246 *	2,622,039

* 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.

Paid-up ordinary share capital of the Company of RM2 prior to reverse acquisition of the Company.

Statements of Changes in Equity
For the financial year ended 31 December 2008 (continued)

Group

2007	Note	Issued and fully paid ordinary shares of RM1 each RM'000	Available-for-sale reserve RM'000	Retained profits RM'000	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 e of available for-sale securities	20	–	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	46	–	–	(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	22 & 23	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 2008 (continued)

Company

	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
2008					
Balance as at 1 January 2008		–*	–	–	–
Arising from reverse acquisition of the Company	34	150,000	3,831,628	–	3,981,628
Net profit for the financial year		–	–	66,653	66,653
First interim dividends in respect of financial year ended 31 December 2008	32	–	–	(11,100)	(11,100)
Second interim dividends in respect of financial year ended 31 December 2008	32	–	–	(5,550)	(5,550)
Balance as at 31 December 2008	22 & 23	150,000	3,831,628	50,003	4,031,631

* Paid up ordinary share capital as at 1 January 2008 was RM2.

	Note	Share Capital RM'000	Available-for-sale Reserve RM'000	Retained Profits RM'000	Total RM'000
2007					
As at date of incorporation		–	–	–	–
Net profit for the financial year		–	–	–	–
Balance as at 31 December 2007	22 & 23	–*	–	–	–

* Paid up ordinary share capital of RM2.

Cash Flow Statements
For the financial year ended 31 December 2008

	Note	Group		Company	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
OPERATING ACTIVITIES					
Net profit for the financial year		419,681	403,629	66,653	–
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		(6,606)	(16,944)	–	–
Amortisation of premium less accretion of discount on Islamic debt securities		(24,003)	(11,323)	–	–
Accretion of discount on mortgage assets		(236,173)	(179,836)	–	–
Accretion of discount on Islamic mortgage assets		(146,992)	(117,467)	–	–
Income from Islamic debt securities		(2,356)	(11,866)	–	–
Interest income		(956,995)	(982,224)	–	–
Income from Islamic operations		(569,823)	(199,790)	–	–
Interest expense		828,427	795,707	–	–
Profit attributable to Islamic bondholders		488,475	142,800	–	–
Depreciation of property and equipment		713	653	–	–
Amortisation of intangible assets		2,739	2,259	–	–
Gain on disposal of property and equipment		(1)	(80)	–	–
Gain on disposal of available-for-sale investment securities		(175)	(7,150)	–	–
Unrealised gain on revaluation of interest rate swap		(541)	(205)	–	–
Allowance for impairment losses on mortgage assets and Islamic mortgage assets		25,967	17,977	–	–
Intangible assets written off		–	9	–	–
Share of loss in a joint venture company		4	–	–	–
Taxation		142,532	136,526	–	–
Zakat		2,075	1,519	–	–
Operating (loss)/profit before working capital charges		(33,052)	(25,806)	66,653	–
Decrease in amounts due from counterparties		3,610,239	2,590,610	–	–
Decrease/(increase) in Islamic financing debts		1,319,838	(1,707,148)	–	–
Increase in mortgage assets		(1,637,131)	(4,555,375)	–	–
Increase in Islamic mortgage assets		(1,954,861)	(1,921,189)	–	–
(Decrease)/increase in other assets		(4,792)	6,482	(218)	–
(Decrease)/increase in unsecured bearer bonds and notes		(2,157,831)	248,477	–	–
Increase in Islamic bonds		974,744	1,311,773	–	–
(Decrease)/increase in residential mortgage-backed securities		(225,000)	1,830,000	–	–
(Decrease)/increase in Islamic residential mortgage-backed securities		(250,000)	2,110,000	–	–
Increase in other liabilities		48,245	31,753	221	–
Increase in deposits and placement of financial institutions		465,000	–	–	–
Cash generated from/(utilised in) operating activities		155,399	(80,423)	66,656	–

Cash Flow Statements
For the financial year ended 31 December 2008 (continued)

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Interest received		966,351	829,547	–	–
Income received from Islamic assets		517,027	159,099	–	–
Interest paid		(798,612)	(788,996)	-	-
Profit attributable to Islamic bondholders		(534,560)	(135,780)	–	–
Payment of zakat		(1,007)	(992)	–	–
Payment of taxation		(84,881)	(65,270)	–	–
Net cash generated from/(utilised in) operating activities		219,717	(82,815)	66,656	–
INVESTING ACTIVITIES					
Net proceeds from:					
Purchase of available-for-sale investment securities		(162,301)	(1,138,966)	–	–
Purchase of property and equipment		(209)	(940)	–	–
Purchase of intangible assets		(2,446)	(4,991)	–	–
Proceeds received from disposal of property and equipment		9	80	–	–
Proceeds received from disposal of intangible assets		–	96	–	–
Proceeds from disposal of available-for-sale investments securities		–	851,899	–	–
Income received from Islamic securities		6,567	–	–	–
Income received from Islamic debt securities		2,295	–	–	–
Interest in a joint venture company		(50,000)	–	(50,000)	
Net cash utilised in investing activities		(206,085)	(292,822)	(50,000)	–
FINANCING ACTIVITIES					
Payment of dividends		(16,650)	(16,425)	(16,650)	–
Net cash utilised in financing activities		(16,650)	(16,425)	(16,650)	–
Net (decrease)/increase in cash and cash equivalents		(3,018)	(392,062)	6	–
Cash and cash equivalents as at beginning of the financial year		1,542,416	1,934,478	–	–
Cash and cash equivalents as at end of the financial year		1,539,398	1,542,416	6	–
Analysis of cash and cash equivalents:					
Cash and short-term funds	5	250,748	1,042,271	6	–
Deposits and placements with financial institutions	6	1,288,650	500,145	–	–
		1,539,398	1,542,416	6	–

Notes to the Financial Statements

1 GENERAL INFORMATION

The principal activity of the Company is investment holding.

The Group subsidiary companies are Cagamas Berhad ("Cagamas") and Cagamas MBS Berhad ("CMBS").

The principal activities of Cagamas consists of purchase of mortgage loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issue of bonds and notes to finance the purchases. Cagamas also purchases Islamic house financing debts, Islamic hire purchase debts and Islamic personal financing debts and issue bonds based on Islamic principles.

The principal activities of the other subsidiary company, CMBS, 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 the mortgage assets and Islamic mortgage assets.

The principal activities of the Group's subsidiary companies and its SPEs are also disclosed in Note 35 of the financial statements.

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

Effective from 23 March 2009, the Group has changed the address of its registered office and its principal place of business. The address of the new registered office and principal place of business is Level 32, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Group and the Company have been prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies in accordance with Financial Reporting Standards ("FRS"), the Malaysian Accounting Standard Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

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

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

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965, FRS and the MASB Approved Accounting Standards in Malaysia 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 revenue and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Group and the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

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

Amendments to published standards effective for the Group and the Company's financial year ended 31 December 2008 and applicable to the Group and the Company are as follows:

FFRS 107	Cash Flow Statements
FRS 112	Income Taxes
FRS 118	Revenue
FRS 137	Provisions, Contingent Liabilities and Contingent Assets

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations that are applicable to the Group and Company and are effective (continued)

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 the Company require retrospective application.

(b) Standards early adopted by the Group and the Company

The Group and the Company have adopted the following 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 the Company but not yet effective

- FRS 7 Financial Instruments: Disclosure (effective for accounting periods beginning on or after 1 January 2010). FRS 7 replaces the disclosures requirements currently in FRS 132: Financial Instruments: Disclosures and Presentation. FRS 7 requires disclosure of quantitative and qualitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, market risk and liquidity risk. The adoption of FRS 7 will require additional disclosure requirements in the Group and the Company's financial statement.

- FRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009). FRS 8 replaces FRS 114_{2004} Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of FRS 8 will require additional disclosure requirements in the Group and the Company's financial statements.

- IC Interpretation 9 Reassessment of Embedded Derivatives (effective for accounting periods beginning on or after 1 January 2010). IC Interpretation 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The adoption of IC 9 does not have any significant financial impact on the results of the Group and the Company.

- IC Interpretation 10 Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 January 2010). IC Interpretation 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The adoption of IC 10 does not have any significant financial impact on the results of the Group and the Company.

In respect of FRS 7, the Group and the Company have applied the transitional provision in the respective standards which exempts the Group and the Company from disclosing the possible impact arising from the initial application of the standard on the Group and the Company's financial statements.

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

- FRS 4 Insurance Contracts (effective for accounting periods beginning on or after 1 January 2010). FRS 4 replaces FRS 202_{2004} General Insurance Business and FRS 203_{2004} Life insurance Business. FRS 4 establishes the principles for recognising and measuring insurance contracts that an entity issued and reinsurance contracts that its holds and also disclosures requirements on the natures and extent arising from insurance contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Economic entities in the Group

(a) Subsidiaries

The Group financial statements consolidate the financial statements of the company and all its subsidiaries. Subsidiaries are those corporations, partnerships or other entities in which the Group and the Company have 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.

On 2 January 2008, the restructuring of Cagamas Group was completed following the share swap of the Group's new share issuance with Cagamas to the Group.

The substance of the combination was that the Company acquired Cagamas Group in a reverse acquisition. Therefore, Cagamas is deemed to be the acquirer.

Note 2.2 (c) provides further information on the reverse acquisition.

Subsidiaries are consolidated using the purchase method of accounting except for certain business combination (as disclosed in 2.2 (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 FRS 122_{2004} "Business Combinations";

- 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 in 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 companies and is recognised in the consolidated income statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Economic entities in the Group (continued)

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.

(c) Reverse acquisition

The restructuring of Cagamas Group was completed following a share swap of Cagamas with the Company on 2 January 2008, whereby Cagamas shareholders received one (1) share of the Company, in exchange of every one share they held in Cagamas. The share swaps of CMBS, CSME and BNM Sukuk from Cagamas to the Company were also completed on the same date.

Following the group restructuring, the Company became the legal parent company of Cagamas and CMBS. For the purpose of the Group's financial statements the consolidation has been accounted for as a reverse acquisition as per FRS 3 'Business Combinations'.

Under reverse acquisition, the acquirer is deemed to be Cagamas, whilst the acquiree is deemed to be the Company. The following have been reflected in the consolidated financial statements:-

- the equity structure appearing in these consolidated financial statements after the reverse acquisition reflects the equity structure of the Company; and

- the comparative information presented in these consolidated financial statements is that of Cagamas.

(d) Joint venture company ("JV")

The Group's interest in a JV is accounted for in the consolidated financial statements through the equity method of accounting. Equity accounting involves recognising the Group's share of the post-acquisition results of the JV in the income statement and its share of post-acquisition movements within reserves in reserves.

2.3 Amounts due from counterparties

The Group's main activities, inter alia, involve the purchase of mortgage loans and hire purchase and leasing debts.

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

The Group and the relevant counterparties 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Amounts due from counterparties (continued)

As at the balance sheet date, amounts due from counterparties in respect of mortgage loans and hire purchase and leasing debts are stated at their unpaid principal balances due to the Group. Interest income on amounts due from counterparties 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 from the originators 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 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 adjusted for unaccreted discount. Interest income/income on mortgage assets and Islamic mortgage assets respectively 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 commits to purchase or sell the asset. Investments are derecognised when the Group 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 of, 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.

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

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. Note 2.8 to the financial statement describes as the Group's accounting policy on impairment of assets and Note 3 details out the critical accounting estimates and assumptions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year which they are incurred.

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. The Group's accounting policy on impairment of assets is reflected 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.

2.8 Impairment of assets

(a) Financial assets

The Group and the Company assess 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 asses 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 risk 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 returns that are different from those components.

2.15 Derivative financial instruments and hedge accounting

Interest rate swaps ("IRS") are used by the Group to hedge the issuance of its debt securities from potential movements in interest rates. 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 derivative liabilities (unfavourable). Losses and gains from the changes in fair value are taken to the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Derivative financial instruments and hedge accounting (continued)

For financial instruments designated as hedging instruments, the Group documents at the inception the relationship between the hedging instrument and hedged item, including the risk management objective for undertaking various hedge transactions and methods used to assess the effectiveness of the hedge.

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

Cash flow hedge

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

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

2.16 Provisions

Provisions are recognised when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Where the Group and the Company 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.

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

2.17 Zakat

The Group recognises its obligations towards the payment of zakat on business. Zakat for the current period is recognised when the Group has a current zakat obligation as a result of a zakat assessment. The amount of zakat expenses shall be assessed when the Group has been in operation for at least 12 months, i.e. 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 2008 is 2.5% of the zakat base. The zakat base of the Group 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Employee benefits (continued)

(b) Defined contributions plans

The Group contributes to the Employees' Provident Fund ("EPF"), the relate 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 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, which will generate probable economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

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

(b) Service rights to transaction administration and administrator fees

Service rights to transaction administration and administrator fees ("Service Rights") represent 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 assets 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Share capital (continued)

(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 profits 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 the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

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

2.23 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 entity.

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

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

(b) Fair value estimation for disclosure 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 the Company use 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 the 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 is assumed to approximate their fair values. 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.

2.24 Contingent liabilities and contingent assets

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

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

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 judgement by management in the process of applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

(a) Fair value of financial instruments

(i) Derivatives and AFS investments securities

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

(ii) Mortgage assets and Islamic mortgage assets

The Group acquired mortgage assets and Islamic mortgage assets from the approved originators 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 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 judgements and assumptions about borrower's prepayment patterns in various interest/profit rate environments that involve a significant degree of uncertainty. The Group 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 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 judgement. In making this judgement, the Group 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 issuer, 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 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 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 SPEs

The Group incorporates its SPEs 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 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 and/or IRMBS have been fully redeemed and all obligations and liabilities of CMBS in respect of the RMBS/IRMBS have been discharged.

4 RISK MANAGEMENT OBJECTIVE AND POLICIES

Risk Management is an integral part of the Group and the 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 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.

4 RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

The Group will continue to develop its human resources, review existing processes and introduce new approaches in line with best practices in risk management. It is the Group and the 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's operations and activities. The Board of Directors sets the risk appetite and tolerance level that are consistent with the Group's overall business objectives and desired risk profile. The Board of Directors also reviews and approves all significant risk management policies and risk exposures.

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

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

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

Risk faced by the Group

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

(b) Market risk

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

The Group controls its market risk exposure by imposing threshold limits. The limits are set based on the Group's risk appetite and the risk-return relationship. These limits are regularly reviewed and monitored. The Group 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 also uses derivative instruments such as interest rate swaps to manage and hedge its market risk exposure against fluctuations in interest rates.

4 RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Risk faced by the Group (continued)

(c) Liquidity risk

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

The Group mitigates its liquidity risk by matching the timing of purchases of loans and debts with issuance of debt securities. The Group and the Company plan cash flow positions and monitor closely every business transaction to ensure that available funds are sufficient to meet business requirements at all times. In addition, the Group and the Company set 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 the Company have established and maintained comprehensive internal controls, systems and procedures that are subject to regular audit and review by internal auditors. The Group and the Company have in place an established Business Continuity Plan to minimise the impact of any disaster and reduce the time to restore operations. The Group and the Company conduct tests on its critical systems and processes on a regular basis

The Group 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 to maintain and monitor limits.

Securitisation

To date, the Group has undertaken a total of RM13.2 billion of 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 Cagamas.

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	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash and balances with banks and other financial institutions	158	226	6	–
Money at call and deposits placements maturing within one month	191,260	742,765	–	–
Mudharabah money at call and deposits placements maturing within one month	59,330	299,280	–	–
	250,748	1,042,271	6	–

6 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group	
	2008 RM'000	2007 RM'000
Licensed banks	1,288,650	500,145

7 AVAILABLE-FOR-SALE INVESTMENT SECURITIES

	2008 RM'000	2007 RM'000
At fair value:		
Khazanah Bonds	137,071	93,760
Malaysian Government Securities	48,103	–
Private Debt Securities	288,135	269,282
Malaysian Government Investment Issues	49,628	–
BNM Negotiable Notes	188,301	–
Islamic Debt Securities	323,524	345,617
Negotiable Instruments of Deposits	175,589	373,275
Bankers Acceptances	44,579	–
Islamic Accepted Bills	21,210	–
	1,276,140	1,081,934

The maturity structure of AFS investment securities is as follows:

	2008 RM'000	2007 RM'000
Maturing within one year	767,764	818,633
One year to three years	201,249	93,760
Three years to five years	133,189	169,541
More than five years	173,938	–
	1,276,140	1,081,934

8 AMOUNTS DUE FROM COUNTERPARTIES

	2008 RM'000	2007 RM'000
Relating to:		
Mortgage loans	7,963,032	9,889,305
Hire purchase and leasing debts	1,724,663	3,408,629
	9,687,695	13,297,934

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

	2008 RM'000	2007 RM'000
Maturing within one year	6,175,041	7,494,734
One year to three years	3,022,884	3,852,121
Three years to five years	489,770	1,913,557
More than five years	–	37,522
	9,687,695	13,297,934

9 MORTGAGE ASSETS

	Group 2008 RM'000	2007 RM'000
Mortgage assets:		
Portfolio 2004 – 1	783,899	928,986
Portfolio 2005 – 2	1,887,345	1,963,399
Portfolio 2007 – 2	2,260,205	2,401,785
PWOR	4,766,093	2,550,088
	9,697,542	7,844,258

The maturity structure of the mortgage assets is as follows:

Maturing within one year	1,051,334	651,262
One year to three years	1,868,386	1,284,300
Three years to five years	1,617,915	1,088,110
More than five years	7,579,461	6,818,770
	12,117,096	9,842,442
Less: Unaccreted discount	(2,388,141)	(1,986,791)
Less: Allowance for impairment losses	(31,413)	(11,393)
	9,697,542	7,844,258

10 ISLAMIC MORTGAGE ASSETS

Islamic mortgage assets:		
Portfolio 2005 – 1	1,949,450	2,006,686
Portfolio 2007 – 1	2,003,990	2,075,774
PWOR	2,224,927	–
	6,178,367	4,082,460

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

Maturing within one year	415,961	186,260
One year to three years	834,593	486,386
Three years to five years	810,018	444,410
More than five years	5,611,729	3,942,642
	7,672,301	5,059,698
Less: Unaccreted discount	(1,481,403)	(970,654)
Less: Allowance for impairment losses	(12,531)	(6,584)
	6,178,367	4,082,460

11 ISLAMIC FINANCING DEBTS

	Group 2008 RM'000	Group 2007 RM'000
Islamic house financing debts	2,397,049	2,691,610
Islamic hire purchase debts	2,810,778	4,271,187
Islamic personal financing debts	435,132	–
	5,642,959	6,962,797

The maturity structure of Islamic financing debts is as follows:

	2008 RM'000	2007 RM'000
Maturing within one year	2,068,803	1,956,836
One year to three years	2,812,926	3,835,348
Three years to five years	761,230	1,170,613
	5,642,959	6,962,797

12 OTHER ASSETS

	2008 RM'000	2007 RM'000
Accrued interest receivables	356,612	312,005
Mortgage assets repurchased	49,342	57,350
Staff loans and financing	3,292	2,985
Deposits	869	209
Prepayments	784	328
Income receivables	93,634	94,042
	504,533	466,919

13 PROPERTY AND EQUIPMENT

Group	Office equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
2008					
Cost					
As at 1 January 2008	3,516	908	720	–	5,144
Additions	172	23	11	4	210
Disposals	(9)	(1)	(9)	–	(19)
As at 31 December 2008	3,679	930	722	4	5,335
Accumulated Depreciation					
As at 1 January 2008	(2,043)	(491)	(357)	–	(2,891)
Charge for the year	(508)	(82)	(123)	–	(713)
Disposals	2	–	8	–	10
As at 31 December 2008	(2,549)	(573)	(472)	–	(3,594)
Net book value as at 31 December 2008	1,130	357	250	4	1,741

13 PROPERTY AND EQUIPMENT (CONTINUED)

Group	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 I 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

14 INTANGIBLE ASSETS

Group	Service rights RM'000	Computer software RM'000	Licenses RM'000	Computer software under development RM'000	Total RM'000
2008					
Cost					
As at 1 January 2008	17,161	7,111	160	845	25,277
Additions	–	2,345	545	–	2,890
Reclassification	–	548	–	(548)	–
Reclassed to other liabilities	(444)	–	–	–	(444)
As at 31 December 2008	16,717	10,004	705	297	27,723
Accumulated Amortisation					
As at 1 January 2008	(2,896)	(3,883)	(67)	–	(6,846)
Charge for the year	(1,198)	(1,490)	(51)	–	(2,739)
Disposals	–	–	–	–	–
Reclassification	–	–	–	–	–
As at 31 December 2008	(4,094)	(5,373)	(118)	–	(9,585)
Net book value as at 31 December 2008	12,623	4,631	587	297	18,138

14 INTANGIBLE ASSETS (CONTINUED)

Group	Service rights 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

Service rights are amortised over a straight line basis, over the tenure of the RMBS/IRMBS. The remaining amortisation period of the assets ranges from 6 to 19 years (2007: 7 to 20 years).

15 INTEREST IN A JOINT VENTURE ("JV") COMPANY

	Group 2008 RM'000	Group 2007 RM'000
Group		
Share of net assets of a JV	49,996	–
Company		
Unquoted shares at cost	50,000	–

15 INTEREST IN A JOINT VENTURE ("JV") COMPANY (CONTINUED)

The Company has a 50% interest in a joint venture ("JV"), Cagamas HKMC Berhad ("CHKMC"), which provides mortgage guarantee and mortgage indemnity business and other form of credit protection. The following amounts represent the Company's 50% share of the assets and liabilities, and results of the JV. They are included in the balance sheet and income statement of the Group:

	Group	
	2008 RM'000	2007 RM'000
Assets		
Current assets	50,753	–
Liabilities		
Current liabilities	757	–
Net assets	49,996	–
Income	826	–
Expenses	(830)	–
Loss after tax	(4)	–

There are no contingent liabilities relating to the group's interest in the JV, and no contingent liabilities of the venture itself.

There are no comparative figures as CHKMC was in corporated on 14 April 2008. Further details o the establishment of CHKMC are explained in Note 47(b).

16 UNSECURED BEARER BONDS AND NOTES

Group

	Year of maturity	2008 Amount outstanding RM'000	2008 Effective interest rate %	2007 Amount outstanding RM'000	2007 Effective interest rate %
(a) Fixed rate bonds	2008	–	–	6,460,000	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
		3,435,000		9,895,000	
Add: Unaccreted premium		–		35	
Less: Unamortised discount		(585)		(5,002)	
		3,434,415		9,890,033	
(b) Short-term notes	2008	–		3,065,000	
		–		3,065,000	
Less: Unamortised discount		–		(2,787)	
		–		3,062,213	

16 UNSECURED BEARER BONDS AND NOTES (CONTINUED)

Group

	Year of maturity	2008 Amount outstanding RM'000	2008 Effective interest rate %	2007 Amount outstanding RM'000	2007 Effective interest rate %
(c) Medium-term notes	2009	495,000	4.050	–	–
	2010	640,000	3.980-4.480	465,000	3.980
	2011	570,000	4.600-4.630	340,000	4.210
	2012	340,000	4.210	–	–
	2013	145,000	4.900-5.000	–	–
	2014	345,000	4.440	345,000	4.440
	2015	245,000	5.190-5.300	–	–
	2017	455,000	4.640	455,000	4.640
	2018	140,000	5.710	–	–
	2019	320,000	4.800	320,000	4.800
	2020	170,000	5.900-6.000	–	–
	2022	350,000	4.950	350,000	4.950
	2023	140,000	6.050	–	–
	2027	250,000	5.150	250,000	4.150
	2028	430,000	6.250-6.500	–	–
		5,035,000		2,525,000	
(d) Commercial paper	2009	4,850,000	3.480-3.770	–	–
		13,319,415		15,477,246	

	Group 2008 RM'000	Group 2007 RM'000
The maturity structure of unsecured bearer bonds and notes is as follows:		
Maturing within one year	6,974,963	9,519,183
One year to three years	3,014,452	3,418,065
Three years to five years	485,000	819,998
More than five years	2,845,000	1,720,000
	13,319,415	15,477,246

(a) Fixed rate bonds

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

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

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

(c) Commercial papers

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

17 ISLAMIC BONDS

Group

	Year of maturity	2008 Amount outstanding RM'000	2008 Effective profit rate %	2007 Amount outstanding RM'000	2007 Effective profit rate %
(a) Sanadat Mudharabah Cagamas	2008	–	–	120,000	–
	2009	50,000	–	50,000	–
		50,000		170,000	
(b) Sanadat Cagamas					
(i) Primary bonds	2009	300,000	4.225	300,000	4.225
		300,000		300,000	
(ii) Secondary bonds	2008	–	–	12,675	–
	2009	12,675	–	12,675	–
		312,675		325,350	
Less: Unamortised deferred expenses		(7,956)		(20,632)	
Less: Unamortised discount		(1)		(2)	
		304,718		304,716	
(c) Bithaman Ajil Islamic Securities					
(i) Primary bonds	2008	–	–	1,250,000	3.350-4.400
	2009	1,110,000	3.620-4.650	1,110,000	3.620-4.650
	2010	985,000	3.660-4.220	985,000	3.660-4.220
	2011	240,000	4.050-4.160	240,000	4.050-4.160
	2012	240,000	4.150	240,000	4.150
		2,575,000		3,825,000	
(ii) Secondary bonds	2008	–		136,475	
	2009	94,691		94,690	
	2010	39,714		39,714	
	2011	14,930		14,930	
	2012	4,980		4,980	
		2,729,315		4,115,789	
Less: Unamortised deferred expenses		(116,837)		(238,053)	
		2,612,478		3,877,736	
(d) Islamic Commercial Papers	2008	–	–	720,000	3.610-3.650
	2009	545,000	3.480-3.770	–	–
		545,000		720,000	

17 ISLAMIC BONDS (CONTINUED)

Group

	Year of maturity	2008 Amount outstanding RM'000	2008 Effective profit rate %	2007 Amount outstanding RM'000	2007 Effective profit rate %
(e) Islamic Medium Term Notes	2009	1,385,000	3.700-4.050	1,050,000	3.700
	2010	1,675,000	3.850-4.250	1,390,000	3.850
	2011	240,000	4.150-4.630	–	–
	2013	235,000	4.900-5.000	–	–
	2015	245,000	5.190-5.300	–	–
	2018	195,000	5.710-5.800	–	–
	2020	260,000	5.900-6.000	–	–
	2023	335,000	6.050-6.350	–	–
	2028	405,000	6.250-6.500	–	–
		4,975,000		2,440,000	
		8,487,196		7,512,452	

	Group 2008 RM'000	Group 2007 RM'000
The maturity structure of Islamic bonds is as follows:		
Maturing within one year	3,411,256	2,105,480
One year to three years	3,157,205	4,919,070
Three years to five years	478,735	487,902
More than five years	1,440,000	–
	8,487,196	7,512,452

(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 date.

(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 Group 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 Group based on various Islamic principles. These Islamic bonds have tenures of more that 1 year and carry a profit which is determined at the point of issuance. Profit on these bonds is paid half-yearly/quarterly.

18 RESIDENTIAL MORTGAGE-BACKED SECURITIES ("RMBS")

Group

	Year of maturity	2008 Amount outstanding RM'000	2008 Effective interest rate %	2007 Amount outstanding RM'000	2007 Effective interest rate %
RMBS	2008	–	4.100	225,000	4.100
	2009	340,000	4.300	340,000	4.300
	2010	765,000	4.140	765,000	4.140
	2011	290,000	4.950	290,000	4.950
	2012	645,000	4.360	645,000	4.360
	2014	725,000	4.860	725,000	4.860
	2015	320,000	5.100	320,000	5.100
	2017	870,000	4.850	870,000	4.850
	2019	260,000	4.700	260,000	4.700
	2020	385,000	5.650	385,000	5.650
	2022	250,000	4.900	250,000	4.900
	2025	265,000	5.920	265,000	5.920
	2027	105,000	5.080	105,000	5.080
		5,220,000		5,445,000	

	Group 2008 RM'000	Group 2007 RM'000
The maturity structure of the RMBS is as follows:		
Maturing within one year	340,000	225,000
One year to three years	1,055,000	1,105,000
Three years to five years	645,000	935,000
More than five years	3,180,000	3,180,000
	5,220,000	5,445,000

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) RMBS' interest coupon is payable quarterly in arrears.

(c) The RMBS are constituted by a Trust Deed made between CMBS 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.

19 ISLAMIC RESIDENTIAL MORTGAGE-BACKED SECURITIES ('IRMBS')

Group

	Year of Maturity	2008 Amount outstanding RM'000	2008 Effective interest rate %	2007 Amount outstanding RM'000	2007 Effective interest rate %
IRMBS	2008	–	–	250,000	3.410
	2010	545,000	3.710	545,000	3.710
	2012	515,000	3.970	515,000	3.970
	2014	270,000	3.780	270,000	3.780
	2015	515,000	4.710	515,000	4.710
	2017	810,000	4.460	810,000	4.460
	2019	245,000	4.020	245,000	4.020
	2020	400,000	5.270	400,000	5.270
	2022	320,000	4.170	320,000	4.170
	2027	290,000	4.340	290,000	4.340
		3,910,000		4,160,000	

	Group 2008 RM'000	Group 2007 RM'000
The maturity structure of the IRMBS is as follows:		
Maturing within one year	–	250,000
One year to three years	545,000	545,000
Three years to five years	515,000	515,000
More than five years	2,850,000	2,850,000
	3,910,000	4,160,000

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 CMBS 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.

20 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	
	2008 **RM'000**	**2007** **RM'000**
Deferred tax assets	14,054	–
Deferred tax liabilities	(243,401)	(187,079)
	(229,347)	(187,079)

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

Group **2008**	**As at 1.1.2008 RM'000**	**(Debit)/credit to income statement RM'000**	**(Debit)/credit to reserves RM'000**	**As at 31.12.2008 RM'000**
Deferred tax assets/(liabilities)				
Excess of capital allowances over depreciation on property and equipment	(1,400)	(137)	–	(1,537)
Temporary difference relating to accretion of discount of AFS investment securities and mortgage asstes	(188,754)	(68,850)	–	(257,604)
Unrealised gains/(losses) on revaluation of AFS investment securities	(1,161)	–	(282)	(1,443)
Unrealised gains on revaluation of IRS	(604)	(1,005)	–	(1,609)
Temporary difference relating to allowance for impairment losses	4,674	6,312	–	10,986
Unrealised losses on revaluation of IRS under cash flow hedge accounting	166	1,112	20,582	21,860
	(187,079)	(62,568)	20,300	(229,347)

2007	**As at 1.1.2007 RM'000**	**(Debit)/credit to income statement RM'000**	**(Debit)/credit to reserves RM'000**	**As at 31.12.2007 RM'000**
Deferred tax assets/(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	(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)
Temporary difference relating to amortisation of premium of AFS investment securities	297	(297)	–	–
Unrealised losses on revaluation of IRS	79	87	–	166
	(136,589)	(53,288)	2,798	(187,079)

21 OTHER LIABILITIES

	Group	
	2008 RM'000	2007 RM'000
Provision for zakat	2,835	1,767
Profit attributable to bondholders	76,046	30,720
Accrued interest payables on:		
Unsecured bearer bonds and notes	105,676	134,269
RMBS	25,862	26,238
Profit attributable to:		
IRMBS	19,863	20,623
Other payables	13,416	4,740
	243,698	218,357

22 SHARE CAPITAL

Following the reverse acquisition of the Group [see Note 2.2(c) and Note 34], the share capital reported as at 31 December 2008 represents that of the Company:

Group and Company

Ordinary shares of RM1 each:

	2008 RM'000
Authorised:	
Balance as at beginning of year	100
Increase in authorised share capital effected on 2 January 2008	499,900
As at end of year	500,000
Issued and fully paid up:	
Balance as at beginning of year	–*
Shares issued in respect of acquisition of Cagamas, CMBS, CSME & BNM Sukuk	150,000
Balance as at end of year	150,000

* Paid up share capital as at date of incorporation was RM2.

The share capital reported for the Group as at 31 December 2007 represents that of Cagamas.

Ordinary shares of RM1 each:

	2007 RM'000
Authorised:	
Balance as at beginning and end of year	500,000
Issued and fully paid:	
Balance as at beginning and end of year	150,000

23 RESERVE

The Group 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 2008. The Group also has tax exempt income under Section 12 of the Income Tax (Amendments) Act, 1999 which can be paid out as tax exempt dividends.

24 INTEREST INCOME

	Group	
	2008 RM'000	**2007 RM'000**
Interest income from:		
Amounts due from counterparties relating to:		
Mortgage loans	352,021	417,380
Hire purchase and leasing debts	105,589	218,897
Mortgage assets	440,389	306,295
Mortgage assets repurchased	1,963	2,282
AFS investment securities	15,900	4,592
Deposits and placements with financial institutions	44,941	30,958
Repurchased agreements	–	2,315
Others	–	49
	960,803	982,768
Accretion of discount less amortisation of premium (net)	253,506	199,205
	1,214,309	1,181,973

25 INTEREST EXPENSE

Interest expense on:		
Unsecured bearer bonds	273,046	470,838
Unsecured bearer notes	2,787	91,320
Medium-term notes	150,653	19,502
Commercial papers	138,219	–
RMBS	259,599	208,569
Deposits and placements of financial institutions	4,123	5,478
	828,427	795,707

26 NON-INTEREST INCOME

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Net unrealised (losses)/gains from changes in fair value of derivative financial instruments	(541)	205	–	–
Net losses from derivative financial instruments	(2,404)	(371)	–	–
Other non-operating income	1,225	355	–	–
Gain on disposal of AFS investment securities	171	7,146	–	–
Gain on disposal of property and equipment	1	80	–	–
Intangible assets written off	–	(9)	–	–
Dividend income	–	–	66,656	–
	(1,548)	7,406	66,656	–

27 OPERATING PROFIT

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
The following items have been charged in arriving at profit before taxation and zakat:				
Directors' remuneration (Note 28)	258	225	–*	–*
Rental of premises	757	757	–	–
Hire of equipment	175	179	–	–
Auditors' remuneration:				
Audit fee	127	58	–*	–*
Non-audit fee	60	30	–	–
Depreciation of property and equipment	713	653	–	–
Amortisation of intangible assets	2,739	2,259	–	–
Personnel cost:				
Salary and allowances	7,616	6,645	–	–
Bonus	5,777	4,405	–	–
Overtime	50	40	–	–
Contributions to Employees Provident Fund	2,247	1,817	–	–
SOCSO	42	39	–	–

* Directors remuneration of RM48,783 and auditor's remuneration of RM17,000 (2007: Nil) for the Company in the financial year was borne by Cagamas.

28 DIRECTORS' REMUNERATION

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

Non-executive Directors:

Dato' Ooi Sang Kuang (Chairman)	
Dato' Mohd Razif Abd Kadir	
Tang Wing Chew	
George Ratilal	
Dato' Charon Wardini Mokhzani	(appointed on 30 July 2008)
Dato' Sri Abdul Wahid Omar	(appointed on 30 July 2008)
Choy Khai Choon	(resigned on 16 April 2008)
Azizi Ali	(resigned on 16 April 2008)

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

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Non-executive Directors:				
Fees	215	172	47	–
Other remuneration	43	53	2	–
	258	225	49	–

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

	Group	
	2008 RM'000	2007 RM'000
Allowance for impairment losses	25,967	17,977

30 TAXATION

(a) Tax charge for the financial year

Current tax	79,964	83,238
Deferred taxation (Note 20)	62,568	53,288
	142,532	136,526
Current tax:		
Current year	81,912	83,238
Overprovision in prior year	(1,948)	–
Deferred taxation:		
Origination and reversal of temporary differences	62,568	53,288
	142,532	136,526

30 TAXATION (CONTINUED)

(b) Reconciliation of income tax expense

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

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Profit before taxation	564,288	541,674	66,653	–
Tax calculated at tax rate of 20%	100	100	–	–
Tax calculated at tax rate of 26% (2007: 27%)	146,587	150,199	17,330	–
Expenses not deductible for tax purposes	160	3,720	–	–
Income not subject to tax	–	–	(17,330)	–
Deduction arises from zakat contribution	(262)	(268)	–	–
Change in tax rate	(2,105)	(17,225)	–	-
Overprovision in prior year				
Income not subject to tax	(1,948)	–	–	–
	142,532	136,526	–	–

31 NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM2,603,900,400 of the Group and RM4,031,851,969 of the Company respectively (2007: RM2,261,439,000 and RM1,508,323,000 for the Group and the Company respectively) by the 150,000,000 shares of the Group and the Company in issue.

Basic and diluted earnings per share is calculated by dividing the net profit for the financial year of RM419,681,098 of the Group and RM66,653,269 of the Company respectively (2007: RM403,629,000 and RM117,644,000 for the Group and the Company respectively) by the 150,000,000 shares of the Group and the Company in issue. For the diluted earnings per share calculation, no adjustment has been made to weighted number of ordinary shares in issue as there are no dilutive potential ordinary shares.

32 DIVIDENDS

Dividends paid are as follows:

Company

2008

	Net per share sen	Amount of dividend net of tax RM'000
First interim dividend paid	7.40	11,100
Second interim dividend paid	3.70	5,550
	11.10	16,650

33 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

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

Related parties	Relationships
Cagamas Berhad ("Cagamas")	Subsidiary
Cagamas MBS Berhad ("CMBS")	Subsidiary
BNM Sukuk Berhad ("BNM Sukuk")	Special Purpose Entity ("SPE")
Cagamas SME Berhad ("CSME")	Special Purpose Entity ("SPE")
Cagamas HKMC Berhad ("CHKMC")	Joint venture
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 Group either directly or indirectly. The key management personnel of the Group include all the Directors of the Group and its holding company, certain members of senior management and their close family members.

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

(b) Significant related party transactions and balances

Most of the transactions involving mortgage loans, 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 Group. 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.

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

	Subsidiary companies RM'000	JV RM'000	Wholly owned SPE of holding company RM'000	BNM RM'000
2008				
Income				
Transaction administrator and administrator fees	10,929	–	211	–
Expenses				
Fully Automated System for Issuing and Tendering ("FAST") & Real-time Electronic Transfer of Funds and Securities ("RENTAS") charges	–	–	–	101
Amount due from				
Transaction administrator and administrator fees	1,173	–	55	–
BNM Current accounts	–	–	–	26
Reimbursement of operating expenses	–	258	–	–

33 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Subsidiary companies RM'000	JV RM'000	Wholly owned SPE of holding company RM'000	BNM RM'000
2007				
Income				
Transaction administrator and administrator fees	8,099	–	48	–
Expenses				
FAST & RENTAS charges	–	–	–	470
Amount due from				
Transaction administrator and administrator fees	1,253	–	48	–
BNM Current accounts	–	–	–	31

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

In addition, the Group's key management personnel received remuneration for services rendered during the financial year. The total compensation paid to the Group's key management personnel for Group level was RM5,307,036 (2007: RM4,425,000).

The total remuneration paid to the Directors is disclosed in Note 28 to the financial statements.

34 BUSINESS COMBINATIONS

Reverse acquisition of Cagamas and CMBS.

On 2 January 2008, the Company completed the reverse acquisition of 150,000,000 ordinary shares of RM1.00 each of Cagamas, representing the entire issued and paid up capital of Cagamas for a notional consideration of RM3.982 billion, reflecting the fair value of net assets acquired and the transaction costs. The purchase consideration was satisfied entirely by the issuance of 150 million new ordinary shares of RM1.00 each at nominal value.

Following the group restructuring, the Company became the legal parent company of Cagamas and CMBS. Under the reverse acquisition, the acquirer is deemed to be Cagamas, whilst the acquiree is the Company.

In addition, the equity structure appearing in on the balance sheet (i.e. the number and type of equity instruments issued) shall reflect the equity structure of the Company, including the equity instruments issued by the Company to effect the combination.

34 BUSINESS COMBINATIONS (CONTINUED)

The fair value of net assets acquired is set out in the following table:

	2008 RM'000
Net assets	–*
Deemed purchase consideration issued by the Company	
- 150 million new ordinary shares of RM1 each with fair value of RM26.54 each at the date of exchange	3,981,628
- expenses directly attributable to the reverse acquisition	–
Total purchase consideration	3,981,628

The purchase consideration of the shares issued by the Company on 2 January 2008 to acquire Cagamas Group is valued at the fair value of the latter on the date of acquisition. Hence, a share premium relief reserve was created to record the excess of investment fair value over share capital on the balance sheet of the Company. On the consolidated balance sheet of the Group, a reverse acquisition reserve was created to set-off against the said share premium relief reserve.

There was no effect on cash flow of the Company from the reverse acquisition.

* Net asset of RM2 immediately before the reverse acquisition.

35 INVESTMENT IN SUBSIDIARY COMPANIES AND SPECIAL PURPOSE ENTITIES ("SPE")

	2008 RM'000	2007 RM'000
Investment in subsidiary companies and SPE:		
Unquoted shares at fair value	3,981,628	–

The subsidiary companies and SPE of the Company are as follows:

Name	Principal activities	Interest in equity held by the Company 2008
Cagamas	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, Islamic hire purchase debts and Islamic personal financing debts, issues bonds under Islamic principles and the PWOR of mortgage assets and provides administrative services to its related company and SPE of the holding company.	100%
CMBS	Securitisation of mortgage assets and Islamic mortgage assets from GOM and issue of RMBS/IRMBS to finance the purchases.	100%
BNM Sukuk	Issuance of Islamic securities to finance purchase of beneficial interest of land and building from BNM and thereafter lease back the same land and building to BNM.	100%
CSME	Securitisation of small and medium enterprise credit facilities via cash or synthetic securitisations or a combination of both.	100%

35 INVESTMENT IN SUBSIDIARY COMPANIES AND SPECIAL PURPOSE ENTITIES ("SPE")

BNM Sukuk was incorporated on 18 January 2006 for the purpose of undertaking the issuance of Islamic securities in accordance with Shariah principles under the auspices of BNM. The results and net assets of BNM Sukuk were not consolidated with the Company 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.

The results and net assets of the CSME were not consolidated with the Company 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	
	2008 RM'000	**2007 RM'000**
Capital expenditure:		
Authorised and contracted for	5,250	2,541
Authorised but not contracted for	525	–
Analysed as follows:		
Property and equipment	–	2,541
Renovations	4,523	–
Computer equipments	1,252	–

37 LEASE COMMITMENTS

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

Year

	2008 RM'000	**2007 RM'000**
Maturing within one year	3,259	859
One year to five years	5,587	332
	8,846	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 Group is protected from adverse movements in interest rates since the Group pays the floating rate receipts from its floating rate purchases to and receives fixed rate payments from the swap counterparties. These fixed rate payments will then be utilised to pay interest on the fixed rate bonds issued.

The IRS are also used to hedge the Group's issuance of debt securities in a rising interest rate environment. In the first leg of the transaction, the Group pays fixed rate interest and receives floating rate payments from the swap counterparties. On issuance of the debt securities, the Group 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 Group in a rising interest rate environment since the Group will be receiving higher fixed rate as compared to the higher fixed rate that the Group is required to pay to the bondholders.

38 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

(a) Cash flow hedges

The Group has designated a number of IRS as cash flow hedges during the financial year. The total fair value of derivatives included within cash flow hedges at 31 December 2008 was a credit of RM85.4 million.

(b) Fair value hedges

At present, the Group has not designated any derivatives as 'fair value hedges'.

(c) Net investment hedges

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

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

	2008			2007		
	Contract/ notional amount RM'000	Fair value Assets RM'000	Fair value Liabilities RM'000	Contract/ notional amount RM'000	Fair value Assets RM'000	Fair value Liabilities RM'000
Derivatives in accounting hedge relationships						
Derivatives designated as cash flow hedges						
IRS	770,000	–	(85,353)	–	–	–
Derivatives not in accounting hedge relationship						
IRS	1,100,000	11,795	(10,474)	1,380,000	7,768	(5,993)
Total recognised derivative assets/(liabilities)	1,870,000	11,795	(95,827)	1,380,000	7,768	(5,993)

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

	Group 2008 RM'000	Group 2007 RM'000
Maturing within one year	390,000	200,000
One year to three years	1,045,000	200,000
Three years to five years	25,000	220,000
More than five years	410,000	760,000
	1,870,000	1,380,000

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

Group

2008	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/ profit bearing RM'000	Total RM'000
Cash and short-term funds	3.26	250,606	–	–	–	142	250,748
Deposits and placements with financial institutions	3.52	1,288,650	–	–	–	–	1,288,650
AFS investment securities	4.06	767,764	201,249	133,189	173,938	–	1,276,140
Amounts due from counterparties:							
Fixed rate portfolio	4.17	6,175,041	3,022,884	489,770	–	–	9,687,695
Mortgage assets	5.08	1,051,334	1,868,386	1,617,915	7,579,460	(2,419,553)	9,697,542
Islamic mortgage assets	5.13	415,961	834,593	810,018	5,611,730	(1,493,935)	6,178,367
Islamic financing debts	4.24	2,068,803	2,812,926	761,230	–	–	5,642,959
Other assets	1.39	293,101	15,250	10,001	20,250	263,330	601,932
Total assets		12,311,260	8,755,288	3,822,123	13,385,378	(3,650,016)	34,624,033
Unsecured bearer bonds and notes	4.26	6,974,963	3,014,452	485,000	2,845,000	–	13,319,415
Islamic bonds	4.39	3,411,256	3,157,205	478,735	1,440,000	–	8,487,196
RMBS	4.78	340,000	1,055,000	645,000	3,180,000	–	5,220,000
IRMBS	4.30	–	545,000	515,000	2,850,000	–	3,910,000
Deposits and placements of financial institutions	3.48	465,000	–	–	–	–	465,000
Other liabilities	2.53	92,804	–	–	–	507,579	600,383
Total liabilities		11,284,023	7,771,657	2,123,735	10,315,000	507,579	32,001,994
Shareholders' funds		–	–	–	–	2,622,039	2,622,039
Total liabilities and shareholders' funds		11,284,023	7,771,657	2,123,735	10,315,000	3,129,618	34,624,033
Interest/profit sensitivity gap		1,027,237	983,631	1,698,388	3,070,378		
Cumulative gap		1,027,237	2,010,868	3,709,256	6,779,634		

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/ profit bearing RM'000	Total RM'000
Cash and short-term funds	3.52	1,042,109	–	–	–	162	1,042,271
Deposits and placements with financial institutions	3.62	500,145	–	–	–	–	500,145
AFS investment securities	2.96	818,633	93,760	169,541	–	–	1,081,934
Amounts due from counterparties:							
Fixed rate portfolio	4.14	8,376,996	3,485,444	1,411,187	24,307	–	13,297,934
Mortgage assets	4.77	651,262	1,284,300	1,088,110	6,818,769	(1,998,183)	7,844,258
Islamic mortgage assets	5.07	186,260	486,386	444,410	3,942,642	(977,238)	4,082,460
Islamic financing debts	4.18	1,956,836	3,835,348	1,170,613	–	–	6,962,797
Other assets	1.10	300,939	18,057	15,597	25,622	136,348	496,563
Total assets		13,833,180	9,203,295	4,299,458	10,811,340	(2,838,911)	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	2,105,480	4,919,070	487,902	–	–	7,512,452
RMBS	4.76	225,000	1,105,000	935,000	3,180,000	–	5,445,000
IRMBS	4.25	250,000	545,000	515,000	2,850,000	–	4,160,000
Other liabilities	2.03	78,432	2,981	2,161	–	350,220	433,794
Total liabilities		12,178,095	9,990,116	2,760,061	7,750,000	350,220	33,028,492
Shareholders' funds		–	–	–	–	2,279,870	2,279,870
Total liabilities and shareholders' funds		12,178,095	9,990,116	2,760,061	7,750,000	2,630,090	35,308,362
Interest/profit sensitivity gap		1,655,085	(786,821)	1,539,397	3,061,340		
Cumulative gap		1,655,085	868,264	2,407,661	5,469,001		

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

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

40 CREDIT RISK

The Group's counterparties 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 summarise the Group's exposure to credit risk as at the balance sheet date:

Group

	Cash and short-term funds RM'000	Deposits and placement with financial institutions RM'000	AFS 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	Derivative financial instruments RM'000	Other assets RM'000	Total RM'000
2008										
Government bodies	26	–	583,626	–	9,697,542	6,178,367	–	–	439,802	16,899,363
Financial Institutions:										
Commercial banks	60,801	1,288,650	241,377	9,138,206	–	–	5,642,959	11,795	76,390	16,460,178
Investment banks	189,920	–	–	2,420	–	–	–	–	67	192,407
Communications, electricity, gas and water	–	–	90,054	133,368	–	–	–	–	379	223,801
Transportation	–	–	100,222	51,846	–	–	–	–	821	152,889
Leasing	–	–	–	361,855	–	–	–	–	2,583	364,438
Others	1	–	260,861	–	–	–	–	–	70,095	330,957
Total	250,748	1,288,650	1,276,140	9,687,695	9,697,542	6,178,367	5,642,959	11,795	590,137	34,624,033

40 CREDIT RISK (CONTINUED)

Group

	Cash and short-term funds RM'000	Deposits and placement with financial institutions RM'000	AFS 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	Derivative financial instruments RM'000	Other assets RM'000	Total RM'000
2007										
Government bodies	32	–	93,760	–	7,844,258	4,082,460	–	–	391,700	12,412,210
Financial institutions:										
Commercial banks	757,458	500,145	748,892	12,970,723	–	–	6,872,332	7,768	79,391	21,936,709
Investments/ Merchant banks	284,780	–	–	51,462	–	–	–	–	347	336,589
Communication, electricity, gas and water	–	–	–	149,927	–	–	90,465	–	385	240,777
Transportation	–	–	63,206	67,187	–	–	–	–	10	130,403
Leasing	–	–	–	58,635	–	–	–	–	81	58,716
Others	1	–	176,076	–	–	–	–	–	16,881	192,958
Total	1,042,271	500,145	1,081,934	13,297,934	7,844,258	4,082,460	6,962,797	7,768	488,795	35,308,362

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.

41 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values of the Group and the Company's financial instruments approximated their carrying values on the balance sheet, except for the following:

Group

	2008		2007	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Assets				
Amount due from counterparties	9,687,695	9,699,876	13,297,934	13,379,119
Mortgage assets	9,697,542	9,813,433	7,844,258	7,898,032
Islamic mortgage assets	6,178,367	6,207,360	4,082,460	4,104,578
Islamic financing debts	5,642,959	5,774,327	6,962,797	6,867,219
	31,206,563	31,494,996	32,187,449	32,248,948
Liabilities				
Unsecured bearer bonds and notes	13,319,415	12,207,767	15,477,246	14,288,426
Islamic bonds	8,487,196	7,001,675	7,512,452	7,021,084
RMBS	5,220,000	5,259,269	5,445,000	5,483,155
IRMBS	3,910,000	3,785,832	4,160,000	4,038,776
	30,936,611	28,254,543	32,594,698	30,831,441

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 counterparties

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 Cagamas and 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.

41 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(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 subsidiary companies, JV and SPE

The estimated fair value of amount due (to)/from subsidiary companies, JV and SPE 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.

(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 IRS is based on the discounted estimated future cash flows using the market interest rate at the balance sheet date.

42 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 Group. 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 purchases 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.

42 SEGMENT REPORTING (CONTINUED)

Group	Purchase with recourse RM'000	Purchase without recourse RM'000	Total RM'000
2008			
Revenue			
External revenue	505,795	708,514	1,214,309
Total revenue	505,795	708,514	1,214,309
Results			
Segment results	75,765	488,523	564,288
Unallocated expenses	–	–	–
Profit from operations	75,765	488,523	564,288
Taxation	(25,996)	(116,536)	(142,532)
Zakat	(673)	(1,402)	(2,075)
Net profit for the year	49,096	370,585	419,681
Net assets			
Segment assets	17,000,042	17,623,991	34,624,033
Unallocated assets	–	–	–
Total assets	17,000,042	17,623,991	34,624,033
Segment liabilities	15,278,251	16,723,743	32,001,994
Unallocated liabilities	–	–	–
Total liabilities	15,278,251	16,723,743	32,001,994
Other information			
Capital expenditure	1,730	1,370	3,100
Depreciation and amortisation	1,926	1,526	3,452

42 SEGMENT REPORTING (CONTINUED)

Group	Purchase with recourse RM'000	Purchase without recourse RM'000	Elimination RM'000	Total RM'000
2007				
Revenue				
External revenue	663,944	518,029	–	1,181,973
Total revenue	663,944	518,029	–	1,181,973
Results				
Segment results	96,502	445,172	–	541,674
Unallocated expenses	–	–	–	–
Profit from operations	96,502	445,172	–	541,674
Taxation	(23,996)	(112,530)	–	(136,526)
Zakat	(1,519)	–		(1,519)
Net profit for the year	70,987	332,642	–	403,629
Net assets				
Segment assets	22,098,285	13,211,330	(1,253)	35,308,362
Unallocated assets	–	–	–	–
Total assets	22,098,285	13,211,330	(1,253)	35,308,362
Segment liabilities	20,653,810	12,375,935	(1,253)	33,028,492
Unallocated liabilities	–	–	–	–
Total liabilities	20,653,810	12,375,935	(1,253)	33,028,492
Other information				
Capital expenditure	5,268	663	–	5,931
Depreciation and amortisation	2,586	326	–	2,912

43 ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE

2008

ASSETS AND LIABILITIES

	Cagamas Holdings Berhad and Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
ASSETS				
Cash and short-term funds	249,355	1,393		250,748
Deposits and placements with financial institutions	817,570	471,080		1,288,650
Derivative financial instruments	11,795	–		11,795
AFS investment securities	521,906	754,234		1,276,140
Amounts due from counterparties	9,687,695	–		9,687,695
Mortgage assets	4,766,093	4,931,449		9,697,542
Islamic mortgage assets	2,224,927	3,953,440		6,178,367
Islamic financing debts	5,642,959	–		5,642,959
Tax recoverable	–	1,144		1,144
Deferred tax assets	14,054	–		14,054
Other assets	189,118	315,415		504,533
Investment in subsidiary and SPE	3,981,628	–	(3,981,628)	–
Interest in a JV	50,000	–	(4)	49,996
Property and equipment	1,741	–		1,741
Intangible assets	18,138	–		18,138
Amount due from holding company	221	–	(221)	–
Amount due from SPE	55	–		55
Amount due from related company	1,173	–	(1,173)	–
Amount due from JV	476	–		476
TOTAL ASSETS	28,178,904	10,428,155		34,624,033
LIABILITIES				
Unsecured bearer bonds and notes	13,319,415	–		13,319,415
Islamic bonds	8,487,196	–		8,487,196
Derivative financial instruments	95,827	–		95,827
RMBS	–	5,220,000		5,220,000
IRMBS	–	3,910,000		3,910,000
Deposits and placements of financial institutions	465,000	–		465,000
Deferred tax liabilities	–	243,401		243,401
Provision for taxation	16,617	840		17,457
Other liabilities	197,845	45,853		243,698
Amount due to a subsidiary/related company	221	1,173	(1,394)	–
TOTAL LIABILITIES	22,582,121	9,421,267		32,001,994

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

2007

ASSETS AND LIABILITIES

	Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
ASSETS				
Cash and short-term funds	767,232	275,039		1,042,271
Deposits and placements with financial institutions	500,000	145		500,145
Derivative financial instruments	7,768	–		7,768
AFS investment securities	482,440	599,494		1,081,934
Amounts due from counterparties	13,297,934	–		13,297,934
Mortgage assets	2,550,088	5,294,170		7,844,258
Islamic mortgage assets	–	4,082,460		4,082,460
Islamic financing debts	6,962,797	–		6,962,797
Tax recoverable	–	1,144		1,144
Deferred tax assets				
Other assets	134,822	332,097		466,919
Property and equipment	2,253	–		2,253
Intangible assets	18,431	–		18,431
Amount due from holding company				
Amount due from SPE	1,301	–	(1,253)	48
TOTAL ASSETS	24,725,066	10,584,549		35,308,362
LIABILITIES				
Unsecured bearer bonds and notes	15,477,246	–		15,477,246
Islamic bonds	7,512,452	–		7,512,452
Derivative financial instruments	5,993	–		5,993
RMBS	–	5,445,000		5,445,000
IRMBS	–	4,160,000		4,160,000
Deposits and placements of financial institutions	–	–		–
Deferred tax liabilities	12,826	174,253		187,079
Provision for taxation	18,433	3,932		22,365
Other liabilities	171,362	46,995		218,357
Amount due to holding company	–	1,253	(1,253)	–
TOTAL LIABILITIES	23,198,312	9,831,433		33,028,492

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

2008

INCOME STATEMENTS

	Cagamas Holdings Berhad and Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
Interest income	767,245	447,064		1,214,309
Interest expense	(568,828)	(259,599)		(828,427)
Income from Islamic operations	77,498	159,529	(498)	236,529
Non-interest income	75,911	126	(77,585)	(1,548)
NET INCOME	351,826	347,120		620,863
Administration and general expenses	(12,888)	(12,091)	11,427	(13,552)
Personnel cost	(17,052)	–		(17,052)
Share of results in a JV	–	–	(4)	(4)
OPERATING PROFIT	321,886	335,029		590,255
Allowance for impairment losses on mortgage assets and Islamic mortgage assets	(25,967)	–		(25,967)
PROFIT BEFORE TAXATION AND ZAKAT	295,919	335,029		564,288
Taxation	(58,057)	(84,475)		(142,532)
Zakat	(2,075)	–		(2,075)
NET PROFIT FOR THE FINANCIAL YEAR	235,787	250,554		419,681

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

2007

INCOME STATEMENTS

	Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
Interest income	748,134	433,839		1,181,973
Interest expense	(587,138)	(208,569)		(795,707)
Income from Islamic operations	13,918	183,358	(3,857)	193,419
Non-interest income	15,505	–	(8,099)	7,406
NET INCOME	190,419	408,628		587,091
Administration and general expenses	(10,022)	(15,112)	11,956	(13,178)
Personnel cost	(14,262)	–		(14,262)
Share of results in a JV	–	–		–
OPERATING PROFIT	166,135	393,516		559,651
Allowance for impairment losses on mortgage assets and Islamic mortgage assets	(2,856)	(15,121)		(17,977)
PROFIT BEFORE TAXATION AND ZAKAT	163,279	378,395		541,674
Taxation	(44,116)	(92,410)		(136,526)
Zakat	(1,519)	–		(1,519)
NET PROFIT FOR THE FINANCIAL YEAR	117,644	285,985		403,629

44 CAPITAL ADEQUACY

	Group 2008 RM'000	Group 2007 RM'000
The capital adequacy ratios are as follows:		
Tier I capital		
Paid-up capital	150,000	150,000
Other reserves	2,529,408	2,126,377
	2,679,408	2,276,377
Deferred tax liabilities	229,347	187,079
Total Tier I capital	2,908,755	2,463,456
Tier II capital		
Allowance for impairment losses on mortgage assets and Islamic mortgage assets	43,945	17,977
Total Tier II capital	43,945	17,977
Total capital base	2,952,700	2,481,433
Capital ratios:		
Core capital ratio	21.2%	19.0%
Risk weighted capital ratio	21.6%	19.2%
Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:		
0%	4,988,460	152,626
10%	–	–
20%	12,195,592	21,957,565
50%	20,204,144	15,246,046
100%	1,158,727	931,735
	38,546,923	38,287,972
Total risk-weighted assets	13,699,918	12,946,271

The above capital adequacy ratio calculations are based on the Guidelines issued by BNM to the banking institutions. Although the Group 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 2008

	Note	Group 2008 RM'000	Group 2007 RM'000
ASSETS			
Cash and short-term funds	(a)	59,363	299,479
Deposits and placements with financial institutions	(b)	550,000	300,145
AFS investment securities	(c)	530,394	371,562
Islamic mortgage assets	(d)	6,178,367	4,082,460
Islamic financing debts	(e)	5,642,959	6,962,797
Receivables		56,831	17,365
Other assets		388,091	245,504
TOTAL ASSETS		13,406,005	12,279,312
LIABILITIES			
Islamic bonds	(f)	8,487,196	7,512,452
IRMBS	(g)	3,910,000	4,160,000
Deferred taxation		98,383	69,706
Provision taxation		5,149	2,682
Other liabilities	(h)	113,339	53,354
TOTAL LIABILITIES		12,614,067	11,798,194
ISLAMIC OPERATIONS' FUNDS		791,938	481,118
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		13,406,005	12,279,312

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Note	2008 RM'000	2007 RM'000
Total income attributable		726,362	589,343
Income attributable to the bondholders	(i)	(488,475)	(391,471)
Income attributable to the shareholders	(j)	237,887	197,872
Administration and general expenses		(1,358)	(4,453)
OPERATING PROFIT FROM ISLAMIC OPERATIONS		236,529	193,419
Allowance for impairment losses on Islamic mortgage assets		(5,948)	(6,583)
PROFIT BEFORE TAXATION AND ZAKAT		230,581	186,836
Taxation		(58,745)	(45,151)
Zakat		(2,075)	(1,519)
NET PROFIT FOR THE FINANCIAL YEAR		169,761	140,166

45 ISLAMIC OPERATIONS (CONTINUED)

STATEMENTS OF CHANGES IN ISLAMIC OPERATIONS' FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Allocated capital funds RM'000	AFS reserve RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2008	153,750	(153)	327,521	481,118
Revaluation of AFS investment securities	–	734	–	734
Realised loss on disposal of AFS investment securities	–	139	–	139
Deferred tax on revaluation of AFS investment securities	–	(223)	–	(223)
Income and expenses recognised directly in equity	–	650	–	650
Net profit for the financial year	–	–	169,761	169,761
Total recognised income and expenses for the year	–	650	169,761	170,411
Transferred to Islamic operations	140,409	–	–	140,409
Balance as at 31 December 2008	294,159	497	497,282	791,938
Balance as at 1 January 2007	141,015	49	187,355	328,419
Revaluation of AFS investment securities (net)	–	(256)	–	(256)
Realised loss on disposal of AFS investment securities	–	–	–	–
Deferred tax on revaluation of AFS investment securities	–	54	–	54
Income and expenses recognised directly in equity	–	(202)	–	(202)
Net profit for the financial year	–	–	140,166	140,166
Total recognised income for the year	–	(202)	140,166	139,964
Transferred to Islamic operations	12,735	–	–	12,735
Balance as at 31 December 2007	153,750	(153)	327,521	481,118

45 ISLAMIC OPERATIONS (CONTINUED)

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Note	Group 2008 RM'000	Group 2007 RM'000
OPERATING ACTIVITIES			
Net profit for the financial year		169,761	140,166
Adjustments for investment items and items not involving the movement of cash and cash equivalents:			
Accretion of discount on Islamic mortgage assets		(146,993)	(117,467)
Amortisation of premium less accretion of discount on AFS investment securities		(22,051)	(8,897)
Income accrued from AFS investment securities		(4,740)	(2,332)
Allowance for financing impairment losses on Islamic mortgage assets		5,948	6,583
Taxation		58,745	45,151
Zakat		2,075	1,519
Operating profit before working capital charges		62,745	64,723
Increase/(decrease) in Islamic financing debts		1,319,838	(1,707,147)
Increase in Islamic mortgage assets		(1,954,862)	(1,921,189)
Increase/(decrease) in receivables		(37,709)	47,372
Increase in other assets		(142,587)	(109,601)
Increase in Islamic bonds		974,744	1,311,773
(Decrease)/increase in IRMBS		(250,000)	2,110,000
Increase in other liabilities		57,358	31,059
Cash generated from/(utilised in) operations		29,527	(173,010)
Payment of taxation		(26,265)	(17,276)
Payment of zakat		(1,007)	(992)
Net cash generated from/(utilised in) operating activities		2,255	(191,278)
INVESTING ACTIVITIES			
Net purchase of AFS investments securities		(135,908)	(177,962)
Income received from AFS investment securities		2,983	2,218
Net cash utilised in investing activities		(132,925)	(175,744)
FINANCING ACTIVITIES			
Increase in allocated funds		140,409	12,735
Net cash generated from financing activities		140,409	12,735
Net increase/(decrease) in cash and cash equivalents		9,739	(354,287)
Cash and cash equivalents as at beginning of the financial year		599,624	953,911
Cash and cash equivalents as at end of the financial year		609,363	599,624
Analysis of cash and cash equivalents:			
Cash and short-term funds	(a)	59,363	299,479
Deposits and placements with financial institutions	(b)	550,000	300,145
		609,363	599,624

45 ISLAMIC OPERATIONS (CONTINUED)

(a) CASH AND SHORT-TERM FUNDS

	Group 2008 RM'000	Group 2007 RM'000
Cash and balances with banks and other financial institutions	33	84
Mudharabah money at call and deposit placements maturing within one month	59,330	299,395
	59,363	299,479

(b) DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group 2008 RM'000	Group 2007 RM'000
Licensed bank	550,000	300,145

(c) AFS INVESTMENT SECURITIES

	Group 2008 RM'000	Group 2007 RM'000
At fair value:		
Khazanah Bonds	39,163	–
Malaysian Government Investment Issue	49,628	–
BNM Negotiable Notes	188,301	–
Islamic Debt Securities	56,503	147,685
Islamic Negotiable Instrument of Deposits	175,589	223,877
Islamic Accepted Bills	21,210	–
	530,394	371,562

The maturity structure of AFS investment securities is as follows:

	Group 2008 RM'000	Group 2007 RM'000
Maturing within one year	474,692	321,697
One year to three years	15,154	–
Three years to five years	20,275	49,865
More than five years	20,273	–
	530,394	371,562

(d) ISLAMIC MORTGAGE ASSETS

	Group 2008 RM'000	Group 2007 RM'000
Islamic mortgage assets:		
PWOR	6,178,367	4,082,460
	6,178,367	4,082,460

The maturity structure of Islamic mortgage assets is as follows:

	Group 2008 RM'000	Group 2007 RM'000
Maturing within one year	415,961	186,260
One year to three years	834,593	486,386
Three years to five years	810,018	444,410
More than five years	5,611,729	3,942,642
	7,672,301	5,059,698
Less: Unaccreted discount	(1,481,403)	(970,654)
Less: Allowance for impairment losses	(12,531)	(6,584)
	6,178,367	4,082,460

45 ISLAMIC OPERATIONS (CONTINUED)

(e) ISLAMIC FINANCING DEBTS

	Group 2008 RM'000	Group 2007 RM'000
Islamic house financing debts	2,397,049	2,691,610
Islamic hire purchase debts	2,810,778	4,271,187
Islamic personal financing debts	435,132	–
	5,642,959	6,962,797

The maturity structure of Islamic financing debts is as follows:

	2008 RM'000	2007 RM'000
Maturing within one year	2,068,803	1,956,836
One year to three years	2,812,926	3,835,348
Three years to five years	761,230	1,170,613
	5,642,959	6,962,797

(f) ISLAMIC BONDS

	2008 RM'000	2007 RM'000
Sanadat Mudharabah Cagamas	50,000	170,000
Sanadat Cagamas	304,718	304,716
Bithaman Ajil Islamic Securities	2,612,478	3,877,736
Islamic Medium Term Notes	545,000	720,000
Islamic Commercial Paper	4,975,000	2,440,000
	8,487,196	7,512,452

The maturity structure of Islamic bonds is as follows:

	2008 RM'000	2007 RM'000
Maturing within one year	3,411,256	2,105,480
One year to three years	3,157,205	4,919,070
Three years to five years	478,735	487,902
More than five years	1,440,000	–
	8,487,196	7,512,452

(g) ISLAMIC RESIDENTIAL MORTGAGE-BACKED SECURITES

	2008 RM'000	2007 RM'000
Islamic Residential Mortgage-Backed Securities	3,910,000	4,160,000
	3,910,000	4,160,000

The maturity structure of the IRMBS is as follows:

	2008 RM'000	2007 RM'000
Maturing within one year	–	250,000
One year to three years	545,000	545,000
Three years to five years	515,000	515,000
More than five years	2,850,000	2,850,000
	3,910,000	4,160,000

45 ISLAMIC OPERATIONS (CONTINUED)

(h) OTHER LIABILITIES

	Group 2008 RM'000	Group 2007 RM'000
Zakat	2,835	1,767
Income attributable to bondholders	76,046	30,720
Profit attributable to IRMBS	19,863	20,623
Other liabilities	14,595	244
	113,339	53,354

(i) INCOME ATTRIBUTABLE TO THE BONDHOLDERS

	2008 RM'000	2007 RM'000
Income from Islamic mortgage assets	221,120	142,800
Income from Islamic financing debts	266,665	242,829
Income from AFS investment securities	90	1,803
Income from deposits and placements with financial institutions	600	4,039
	488,475	391,471

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

	2008 RM'000	2007 RM'000
Mudharabah	3,342	11,870
Bai Bithaman Ajil	133,888	204,962
Murabahah	177,005	31,363
Musyarakah	174,240	143,276
	488,475	391,471

(j) INCOME ATTRIBUTABLE TO THE SHAREHOLDERS

	2008 RM'000	2007 RM'000
Income from Islamic mortgage assets	205,854	172,872
Income/(Expenses) from Islamic financing debts	3,422	(2,054)
Income from AFS investment securities	17,929	10,967
Income from deposits and placements with financial institutions	10,682	16,087
	237,887	197,872

Income attributable to the shareholders analysed by concepts are as follows:

	2008 RM'000	2007 RM'000
Bai Al-Dayn	211,200	171,282
Mudharabah	16,894	22,500
Bai Bithaman Ajil	905	220
Murabahah	7,089	1,340
Musyarakah	1,681	2,530
Qard Al-Hasan	118	–
	237,887	197,872

45 ISLAMIC OPERATIONS (CONTINUED)

(k) CAPITAL ADEQUACY

	Group 2008 RM'000	Group 2007 RM'000
Tier I capital		
Allocated capital funds	294,159	153,750
Other reserves	497,282	327,521
	791,441	481,271
Deferred tax liabilities	98,383	69,706
Total Tier I capital	889,824	550,977
Tier II capital		
Allowance for impairment losses on Islamic mortgage assets	12,531	6,584
Total Tier II capital	12,531	6,584
Total capital base	902,355	557,561
Capital ratios:		
Core capital ratio	15.7%	12.2%
Risk weighted capital ratio	15.9%	12.3%
Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:		
0%	289,079	435,266
10%	–	–
20%	6,268,062	7,189,767
50%	7,790,165	5,053,115
100%	532,692	556,259
	14,879,998	13,234,407
Total risk-weighted assets	5,681,386	4,520,770

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

(l) SHARIAH ADVISORS

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

46 DISCRETIONARY BONUS FEE

In the respective Servicing Agreements signed between GOM, CMBS, Cagamas 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 DURING THE YEAR

a) Cagamas Group Restructuring

The restructuring of Cagamas Group was completed following a share for share exchange of Cagamas with the Company on 2 January 2008 in accordance with the agreement for the purchase of shares in Cagamas between the Company and the existing shareholders of Cagamas dated 1 October 2007, whereby Cagamas shareholders receive one (1) share, for every one (1) share they held in Cagamas. The share swaps of CMBS, CSME and BNM Sukuk from Cagamas to the Company were also completed on the same date.

Following the group restructuring, the Company became the legal parent company of Cagamas and CMBS. However, the group restructuring has been accounted for as a reverse acquisition as required by FRS 3 'Business Combinations'. Under reverse acquisition, the acquirer is deemed to be Cagamas. The financial results of Cagamas and CMBS have been consolidated at the Company level. Please refer to Note 34 for further details.

b) Establishment of a JV

In the previous financial year, the Company has signed a Joint Venture Agreement with the Hong Kong Mortgage Corporation ("HKMC"). The JV, CHKMC was incorporated on 14 April 2008. The Company had acquired a 50% interest in CHKMC on 15 July 2008 by subscribing to 50 million ordinary shares of RM1.00 each at an issue price of RM1.00 per ordinary share.

The principal activities of CHKMC are the provision of mortgage guarantee and mortgage indemnity business and other form of credit protection.

48 SIGNICANT EVENT SUBSEQUENT TO THE BALANCE SHEET DATE

There is no significant event subsequent to the balance sheet date.

49 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year. Such reclassifications did not affect previously reported net income or equity.

50 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 April 2009.

Statement by Directors
Pursuant to Section 169 (15) of the Companies Act, 1965

We, Dato' Ooi Sang Kuang and George Ratilal, two of the Directors of Cagamas Holdings Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 72 to 135 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2008 and of the results and cash flows of the Group and the 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.

DATO' OOI SANG KUANG
CHAIRMAN

GEORGE RATILAL
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 Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 72 to 135 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 28 April 2009, before me.

AHMAD B. LAYA
COMMISSIONER FOR OATHS

Independent Auditors' Report
to the members of Cagamas Holdings Berhad

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Cagamas Holdings Berhad, which comprise the balance sheet as at 31 December 2008 of the Group and of the Company, and the income statement, statement of changes in equity and cash flow statement of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 72 to 135.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are responsible in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2008 and of their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SOO HOO KHOON YEAN
(No. 2682/10/09 (J))
Chartered Accountant

Kuala Lumpur
28 April 2009