A woman wearing a purple hijab and a silver watch is standing on a balcony. She is pointing her right hand towards a house in the background. Her left hand is resting on the white balcony railing. The background shows lush greenery and a white building. The text is overlaid on the left side of the image.

Getting a housing loan has never been easier. Our unique funding model has spurred on the housing loans industry with record numbers of families, today, owning homes due to the ready availability of a wider choice of housing loans at a more competitive cost.



# Chairman's Statement

*On behalf of the Board of Directors, I am pleased to present the Seventeenth Annual Report and the Financial Statements of Cagamas Berhad, the National Mortgage Corporation, for the financial year ended 31 December 2003.*

*The year 2003 has been a rather difficult and challenging year for the Company. Against a backdrop of continued excess liquidity in the banking system and a stable interest rate environment, the financial institutions were generally disinclined to sell their loans and debts to Cagamas. However, following the significant turn in bond yields from July 2003, the financial institutions began to hedge their positions more aggressively. Consequently, RM7,797 million or 70.2% of the Company's total purchases in 2003 were accumulated during the period July to December 2003.*

*Given Cagamas' approach of setting purchase rates that reflect underlying market conditions, the Company had to move with greater agility to constantly update its purchase rates in line with the significant firming of bond yields particularly in the second half of the year.*

*Despite the greater volatility in the bond market, Cagamas quoted purchase rates which are good for transactions of any amount on a ready basis, befitting its role as a market maker. To perform this role effectively, the Company has to look beyond the short-term fluctuations and assess the underlying fundamental demand and supply situation. It also has to take calculated risks in setting the purchase rates, which represents the hallmark of a market maker. As part of its efforts to moderate the volatility in the bond market, the Company adopted a strategy to issue debt securities in stages to fund its purchases.*

## **HIGHLIGHTS**

*The Company achieved another milestone in 2003 with purchases of loans and debts of RM11,112 million, the highest volume of purchases in any single year since the Company's inception. As at 31 December 2003, Cagamas had purchased*



15.8% of the housing loans and 19.3% of the hire purchase and leasing debts outstanding in the banking system. This indicates that there is a vast potential for Cagamas to grow further and in the process not only help the primary lenders with a liquidity and hedging mechanism but also to add further depth and breadth to the already well-established private debt securities market.

In addition, Cagamas continued to be an important player in the private debt securities market. As at 31 December 2003, outstanding Cagamas bonds amounted to RM25,628 million and accounted for 15.6% of the private debt securities market and 7.6% of the total bonds in the capital market.

The bonds and notes issued by Cagamas in 2003 continued to be assigned the highest ratings of AAA and P1 by Rating Agency Malaysia Berhad and AAA and MARC-1 by Malaysian Rating Corporation Berhad. The ratings reflect Management's adherence to prudent guidelines governing loan purchase operations and investments and the high quality of Cagamas' assets.

## **FINANCIAL PERFORMANCE**

The record volume of business during the year under review enabled the Company to achieve a high level of pre-tax profit of RM193 million. Despite the larger volume of loans and debts purchased during the year, the fine pricing policy adopted by the Company coupled with the maturity of higher yielding loans and debts resulted in a lower pre-tax profit for 2003 compared with RM208 million in 2002.

Correspondingly, the after-tax return per share decreased from 100 sen in 2002 to 92 sen in 2003, providing a post-tax return of 12% on average

shareholders' funds, compared with 13.6% in the previous year. During the year, the Company's shareholders' funds declined by 2.4% from RM1,164 million in 2002 to RM1,136 million in 2003 following the payment of a special dividend of 93 sen per share tax-exempt for the financial year ended 31 December 2002. Net tangible assets per share decreased marginally from RM7.76 as at the end of 2002 to RM7.57 as at the end of 2003.

The larger volume of new purchases in 2003 which more than offset the repayments and repurchases of loans and debts by primary lenders resulted in an increase in the Company's total assets by 5.6% from RM26,383 million as at the end of 2002 to RM27,853 million as at the end of 2003. Reflecting the nature of the Company's business, outstanding loans and debts amounting to RM27,339 million as at the end of 2003 represented 98.2% of the total assets of the Company while debt securities outstanding amounting to RM26,433 million, constituted 98.9% of its total liabilities.

## **DIVIDEND**

For the half-year ended 30 June 2003, the Board of Directors declared an interim dividend payment of 10 sen per share less income tax. In spite of the healthy financial position of the Company, the Board recommended a payment of 5 sen per share less income tax taking into account the need for the Company to preserve its capital to facilitate the generation of a higher volume of business as well as venture into securitisation of housing loans and other asset classes in 2004. The total dividend for the financial year ended 31 December 2003 amounted to 15 sen per share less income tax.

## **INITIATIVES IN 2003**

*Taking cognisance of the critical need to continuously review and implement cost effective and efficient processes to enhance productivity, the Company is striving to leverage on technology to support its business operations and strategies. In this connection, the implementation of the Company's Information and Communication Technology (ICT) Master Plan continues to make great progress. The Treasury Management and Loans Processing Systems are expected to be fully operational by May 2004. With these systems in place, the Company will be well-positioned to increase efficiency and deliver new products effectively to meet the more challenging demands of its customers. In 2004, the ICT Master Plan will be reviewed and the Company will embark on other projects that will support its overall business strategies.*

*In furtherance of the Company's plan to establish an enterprise-wide approach to managing risk, and having identified market risk as the primary risk faced by the Company, the Board approved the establishment of the Board Risk Committee which is responsible for overseeing the management of risks associated with the Company's operations. In August 2003, the Board approved the Market Risk Policy which sets out, inter alia, the definition and types of market risk, the strategies and policies in the management of market risk and the roles and responsibilities of parties involved in the management of market risk.*

*The Islamic capital market as well as total Islamic financing has grown phenomenally. As at the end of 2003, Islamic debt securities amounted to RM84,195 million while Islamic financing amounted to RM49,408 million. Although 55.4% (RM27,369 million) of the total Islamic financing constituted*

*Islamic house financing debts and Islamic hire purchase debts, Cagamas' total Islamic debts amounted to only RM908 million. Generally the Islamic institutions were not keen to sell their Islamic debts to Cagamas due to the yield differential between conventional Cagamas bonds and Sanadat Mudharabah Cagamas (SMC) which is used to finance the purchase of Islamic debts. This is largely due to the lack of liquidity and the uncertain returns on the SMC. Hence the Company is now in the process of formulating a new Islamic funding mechanism that will be acceptable to investors.*

*In its efforts to develop the domestic fixed rate bond market, the Company has put in place since 2000 a mechanism to use interest rate swaps (IRS) as a hedging tool and has entered into IRS to support the scheme to purchase housing loans with recourse on a floating rate basis and to issue fixed rate bonds. In the wake of the volatile bond market conditions, particularly in the second half of the year, the Company had to issue debt securities in stages to fund its purchases as large issuances of debt securities at any single point in time would have disrupted the bond market. Since this strategy increases the pipeline risk, the Company entered into IRS to hedge its issuance of debt securities for the first time in December 2003.*

## **PROSPECTS**

*The road ahead for Cagamas will be more challenging. The structural changes that are taking place in the economy, financial sector and the capital market will bring new tests for Cagamas. Liberalisation of the financial and capital markets and the growing sophistication among issuers and investors will require innovative approaches to securitisation. Further, the issuance of Asset-Backed Securities (ABS) Guidelines by the Securities*

*Commission and the Prudential Standards on Asset-Backed Securitisation Transactions by Bank Negara Malaysia have generated greater interest among financial institutions to undertake securitisation.*

*To face these challenges and stay ahead of the competition, the Company will have to transform itself into an organisation with significantly different business and risk profiles. This will require new competencies and skill sets to originate competitively priced, new and more complex products and manage higher risk profiles on the Company's balance sheet.*

*Currently, the Company is actively pursuing several securitisation deals. In fulfilling the changing needs of the market, the Company will be looking beyond purchasing of assets with recourse to securitisation of housing loans as well as other asset classes. The ABS to be issued are expected to appeal to investors looking for better yields and higher credit quality instruments.*

*In considering new ventures or products, the Company has to weigh the risks and returns to ensure that returns commensurate with the risks taken. With the increasing complexity of asset securitisation transactions, there is a need to manage risks better. Due diligence and risk management measures have to be put in place to ensure that the Company is not subject to excessive risk. In this respect, as the Company is venturing into securitisation which entails higher credit risk, a consultant will be engaged to set up a credit risk management framework which will assist the Company to manage the risk for securitisation.*

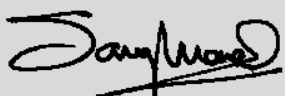
*The Board and Management believe that investing in human capital to create a workforce that is knowledgeable, skilled and competent will bring substantial long-term benefits for the staff as well as*

*the Company. In this regard, as the Company ventures into new areas of securitisation, staff training and acquisition of new knowledge will be intensified to ensure that the staff possess the necessary skill sets to conduct new and more complex businesses.*

## **ACKNOWLEDGEMENT**

*On behalf of the Board of Directors, I would like to take this opportunity to record my appreciation to our customers and shareholders for their continued support. The Board also wishes to extend its sincere appreciation to the regulatory authorities, in particular, the Ministry of Finance, the Securities Commission, Bank Negara Malaysia and the Companies Commission of Malaysia for their continuous and invaluable support and contributions.*

*On behalf of the Board, I am pleased to welcome Dato' Albert Yeoh Beow Tit and Encik Zarir Jal Cama who joined the Board in September 2003, and Encik Shayne Keith Nelson who joined in October 2003. I would also like to record the Board's appreciation of the contributions made by Encik Michael Andrew Hague who resigned from the Board in February 2004.*



**Dato' Ooi Sang Kuang**  
Chairman

# Operations

## **PURCHASE ACTIVITIES**

The Company achieved another milestone in 2003 with purchases of RM11,112 million of housing loans and hire purchase and leasing (HP&L) debts (collectively known as loans and debts) in 2003 as compared with RM10,992 million in 2002. This was the highest level of purchases achieved since Cagamas' inception. The ability to sustain a steady growth in purchases is crucial to generating income since 95% of the Company's profits are derived from its retained portfolio of loans and debts.

During the first half of the year, in spite of the reduction in Cagamas rates to an all time record low in June 2003, purchases of loans and debts amounted to only RM3,315 million. This was mainly attributable to the continued excess liquidity in the banking system coupled with a stable interest rate environment. However, in the second half of the year, rising bond yields triggered by a positive economic outlook prompted the financial institutions to be more active in hedging their portfolios. Consequently, purchases of loans and debts during the second half of the year amounted to RM7,797 million which accounted for 70.2% of the total purchases for 2003. Purchases in September amounting to RM2,030 million represented the highest volume ever purchased in any single month during the period under review.

As in the preceding two years, the financial institutions continued to sell their loans for longer tenures. Of the total purchases, RM6,980 million or 62.8% were contracted for four to 10 years. For the first half of 2003, the financial institutions took advantage of the low Cagamas rates and sold 78.7% of the total loans and debts purchased for that period for four to 10 years. For the second half of the year, due to the rising bond yields, financial institutions

sold 56.1% of the loans and debts purchased for four to 10 years.

Total Islamic house financing (IHF) debts in the industry increased by 33.3% from RM10,763 million as at the end of December 2002 to RM14,344 million as at end of December 2003. Despite the encouraging growth of Islamic financing in the industry, the Company purchased only RM320 million of Islamic debts comprising RM200 million of Islamic hire purchase (IHP) debts from one finance company and a maiden purchase of RM120 million of staff IHF debts from a corporation. The Islamic institutions were reluctant to sell their Islamic debts to Cagamas due to the yield differential between conventional Cagamas bonds and Sanadat Mudharabah Cagamas (SMC) which is used to finance the purchase of Islamic debts. Due to the volatile bond market conditions particularly during the second half of the year, coupled with the uncertainty in the returns of SMC, the investors priced the SMC about 15 to 200 basis points higher than conventional bonds of similar tenure. Given the poor response to the Company's Islamic facilities, the Company conducted two workshops with Islamic market participants to obtain feedback on measures to reduce the yield differentials between Cagamas conventional bonds and SMC. In spite of the efforts to improve the SMC product, the investors remain lukewarm in view of the uncertain returns. Therefore, the Company is now in the process of formulating a new funding mechanism for the purchase of Islamic debts such that the instruments offered to the market would fetch at least the same yields as the conventional Cagamas bonds.

The Company's portfolio from non-financial institutions has increased since the introduction of the back to back arrangement for the purchase of housing loans and HP&L debts in 1992 and 2000

respectively. In 2003, the Company purchased RM213 million of loans and debts from two housing credit companies and a car distributor (RM95 million of housing loans and RM118 million of HP&L debts respectively) under the back to back arrangement. The back to back arrangement enabled non-approved sellers to tap low cost funds from Cagamas through intermediary financial institutions which in turn earn service and recourse fees for their role. Previously, only the merchant banks were interested in the intermediary role given their familiarity as arrangers. However, for the first time in 2003, two commercial banks assumed the intermediary role under the back to back

arrangement. In doing so, the commercial banks have utilised an avenue to improve their fee-based income.

An analysis of Table 1 shows the following:

- (a) There has been a distinct shift in the type of purchases in 2003 as compared with 2002.
- (b) Housing loans sold to Cagamas increased by 72.2% from RM4,085 million in 2002 to RM7,036 million in 2003. As a result, total housing loans purchases accounted for 63.3% of total purchases in 2003 as against 37.2% in

**TABLE 1**  
**Purchases of Loans and Debts**

	2003		2002	
	RM million	% of Total	RM million	% of Total
<b>By Composition</b>				
• Housing Loans	<b>7,036</b>	<b>63.3</b>	<b>4,085</b>	<b>37.2</b>
– Conventional-Preferred	983	8.8	1,645	15.0
– Conventional-Standard	5,933	53.4	2,330	21.2
– Islamic	120	1.1	110	1.0
• Hire Purchase & Leasing Debts	<b>4,076</b>	<b>36.7</b>	<b>6,907</b>	<b>62.8</b>
– Conventional	3,876	34.9	6,407	58.3
– Islamic	200	1.8	500	4.5
• Industrial Property Loans	–	–	–	–
<b>Total</b>	<b>11,112</b>	<b>100</b>	<b>10,992</b>	<b>100</b>
<b>By Sellers</b>				
• Commercial Banks	6,738	60.6	2,839	25.9
• Finance Companies	4,159	37.4	7,853	71.4
• Merchant Banks	95	0.9	65	0.6
• Government	–	–	–	–
• Corporations	120	1.1	235	2.1
<b>Total</b>	<b>11,112</b>	<b>100</b>	<b>10,992</b>	<b>100</b>
<b>By Types</b>				
• On Fixed Rate Basis	10,962	98.7	10,792	98.2
• On Floating Rate Basis	150	1.3	100	0.9
• On Convertible Rate Basis	–	–	100	0.9
<b>Total</b>	<b>11,112</b>	<b>100</b>	<b>10,992</b>	<b>100</b>



2002. HP&L debts on the other hand, accounted for only 36.7% of total purchases.

12 commercial banks sold their housing loans in 2003. Of this, seven domestic banks accounted for 66.4% of the total sales.

- (c) In terms of sellers, the commercial banks' share of sales increased by 137.3% from RM2,839 million in 2002 to RM6,738 million in 2003. Consequently, commercial banks' share of sales to Cagamas accounted for 60.6% as against 25.9% in 2002. The share of loans and debts sold by finance companies decreased significantly from 71.4% to 37.4% since the finance companies had already hedged their positions by selling a significant amount of HP&L debts (RM6,907 million) in 2002. A total of
- (d) The Government did not sell any of their staff housing loans to Cagamas in 2003. However, one corporation sold RM120 million of its staff IHF debts in 2003.
- (e) Only one commercial bank sold RM150 million of its housing loans on a floating rate basis. Consequently, fixed rate purchases accounted for 98.7% of total purchases for 2003.

**TABLE 2**  
**Conventional Housing Loans and IHF Debts by Geographical Distribution**

State	Purchase Value RM million	%	Number of Loans	%
Kuala Lumpur	2,096	29.7	22,642	28.0
Johor	1,005	14.3	10,586	13.0
Selangor	1,500	21.3	14,959	18.5
Penang	754	10.7	9,323	11.5
Kedah	266	3.8	3,950	4.9
Negeri Sembilan	130	1.8	1,939	2.4
Perlis	11	0.2	214	0.3
Melaka	133	1.9	1,726	2.1
Sarawak	328	4.7	3,074	3.8
Perak	338	4.8	5,271	6.5
Sabah	307	4.4	4,359	5.4
Pahang	117	1.7	2,143	2.7
Kelantan	15	0.2	214	0.3
Terengganu	27	0.4	375	0.5
Labuan	9	0.1	58	0.1
<b>Total</b>	<b>7,036</b>	<b>100.0</b>	<b>80,833</b>	<b>100.0</b>

## **PURCHASES OF HOUSING LOANS AND IHF DEBTS BY STATES**

Table 2 shows the Company's purchases of conventional housing loans and IHF debts in 2003 by geographical distribution. As in previous years, about three-quarters of the total number and value of conventional housing loans and IHF debts purchased by the Company were originated in Kuala Lumpur, Johor, Selangor and Penang.

## **REPURCHASES OF LOANS AND DEBTS**

Under the terms of purchase on with recourse basis, the selling institutions undertake to repurchase the loans and debts from Cagamas if the loans and

debts are redeemed by the borrowers or are found to be defective. The selling institutions are also required to repurchase the loans and debts at the price review date if they do not agree to the revised price offered by Cagamas for the rollover of the purchase contract. Except for repurchases at review date, the repurchased loans must be replaced with other loans and debts of an equivalent value. All products are subject to compulsory replacement, except for housing loans where a replacement option is given. In 2003, a total of RM6,562 million of loans and debts were repurchased by financial institutions and selected corporations. Of this amount, RM5,517 million consisted of housing loans and industrial property loans, whilst the balance of RM1,045 million comprised HP&L debts.

**TABLE 3**  
**Outstanding Loans and Debts Portfolio**

Types	As at 31 December 2003		As at 31 December 2002		% Change
	RM million	%	RM million	%	
Housing Loans	<b>15,485</b>	<b>56.6</b>	<b>14,823</b>	<b>56.9</b>	<b>4.5</b>
– Conventional	15,140	55.4	14,579	56.0	3.8
– Islamic	345	1.2	244	0.9	41.4
Hire Purchase & Leasing Debts	<b>11,799</b>	<b>43.2</b>	<b>10,972</b>	<b>42.2</b>	<b>7.5</b>
– Conventional	11,236	41.1	10,513	40.4	6.9
– Islamic	563	2.1	459	1.8	22.7
Industrial Property Loans	<b>55</b>	<b>0.2</b>	<b>238</b>	<b>0.9</b>	<b>- 76.9</b>
<b>Total</b>	<b>27,339</b>	<b>100</b>	<b>26,033</b>	<b>100</b>	<b>5.0</b>

## **OUTSTANDING PORTFOLIO**

Table 3 shows the composition of outstanding loans and debts in the books of the Company as at 31 December 2003. As at 31 December 2003, total outstanding loans and debts held by the Company amounted to RM27,339 million, representing an increase of 5% over the loans and debts outstanding as at 31 December 2002. The increase in the loans and debts portfolio is attributable to the record volume of new purchases of RM11,112 million as compared to lower repurchases and repayments totalling RM9,806 million.

As at 31 December 2003, the outstanding portfolio of loans and debts consisted mainly of conventional housing loans (RM15,140 million or 55.4%), conventional HP&L debts (RM11,236 million or 41.1%), IHF debts and IHP debts (RM908 million or 3.3%) and industrial property loans (RM55 million or 0.2%).

## **CAGAMAS RATES**

The Cagamas rates were revised 24 times in 2003 as compared with 17 revisions in 2002. Of these revisions, 17 revisions were made in the second half of the year as a result of the volatile bond market.

As shown in Table 4, the benchmark 3-year Preferred Cagamas rate was, however, revised 17 times in 2003 as compared with 12 revisions in 2002. Reflecting the continued excess liquidity in the banking system, sales of loans and debts to Cagamas were sluggish in the first half of 2003. To encourage sales, the Company reduced its 3-year Preferred Cagamas rate in stages by 15 basis points from 3.30% p.a. in January to an all time low of 3.15% p.a. in June 2003. In tandem with the rising bond yields, the 3-year Preferred Cagamas rate was increased by 145 basis points from a low of 3.15% p.a. in June 2003 to 4.60% p.a. in November 2003. The 3-year Preferred Cagamas rate was reduced by 10 basis points to 4.50% p.a. in December 2003 reflecting the favourable yields obtained from the tender of 3-year Cagamas bonds.

**TABLE 4**  
**3-year Cagamas Fixed Rate for Purchase with Recourse**

<b>Effective Date</b>	<b>Preferred Rate % p.a.</b>	<b>Standard Rate % p.a.</b>
3 December 2002	3.30	3.35
17 January 2003	3.30	3.35
6 February 2003	3.30	3.35
20 February 2003	3.30	3.35
19 March 2003	3.25	3.30
17 April 2003	3.20	3.25
3 June 2003	3.15	3.20
17 June 2003	3.15	3.20
21 July 2003	3.25	3.30
23 July 2003	3.40	3.45
30 July 2003	3.60	3.65
8 August 2003	3.65	3.70
12 August 2003	3.65	3.70
18 August 2003	3.90	3.95
2 September 2003	3.95	4.00
8 September 2003	4.05	4.10
25 September 2003	3.95	4.00
2 October 2003	3.85	3.90
9 October 2003	3.90	3.95
16 October 2003	3.90	3.95
21 October 2003	4.00	4.05
6 November 2003	4.30	4.35
13 November 2003	4.60	4.65
21 November 2003	4.60	4.65
22 December 2003	4.50	4.55





Our role in purchasing hire purchase and leasing debts from the financial institutions has contributed towards the growth of car ownership among a broader segment of Malaysians.

# The Way Forward

## – Securitisation with Cagamas

### INTRODUCTION

Securitisation began in the United States in the 1970s with the initiation of Government funding programmes for residential mortgages, followed by private financings for mortgages and credit cards. Since the beginning of the 1980s, it has become a global financing tool. As one of the fastest growing forms of finance, securitisation is now a feature of most financial markets.

In Malaysia, the operations of Cagamas Berhad commenced in October 1987, with the Company purchasing loans and debts by raising debt securities at the secondary level. However, the debt securities were not strictly backed by the cashflows from the loans and debts. This process was tailored to suit the prevailing domestic market environment at that time, as both the financial institutions and the capital market were not ready for securitisation.

The issuance of Asset-Backed Securities (ABS) Guidelines in April 2001 by the Securities Commission and the Prudential Standards on Asset-Backed Securitisation Transactions by Bank Negara Malaysia in March 2003 indicate that the financial institutions and the capital market are now ready to undertake securitisation. Since August 2001, several ABS deals have been transacted in Malaysia. Given its experience, Cagamas is in a strong position to offer the financial institutions securitisation transactions at a reduced overall cost. In order to

fulfill the needs of its customers, Cagamas is also looking beyond housing loans to the securitisation of other asset classes.

### SECURITISATION

Securitisation is the transformation of an illiquid group of assets into securities. It is the process of converting the existing and future cash inflows of any person or party into marketable securities. This basically constitutes borrowing against future cashflows. The cashflows and other economic benefits generated by the pool of assets become the security against which borrowings are raised.

The various forms of securities created by securitisation include mortgage-backed securities (MBS), ABS and collateralised debt obligations (CDO).

MBS are instruments with cash flows from the underlying pool of residential or commercial property mortgage loans.

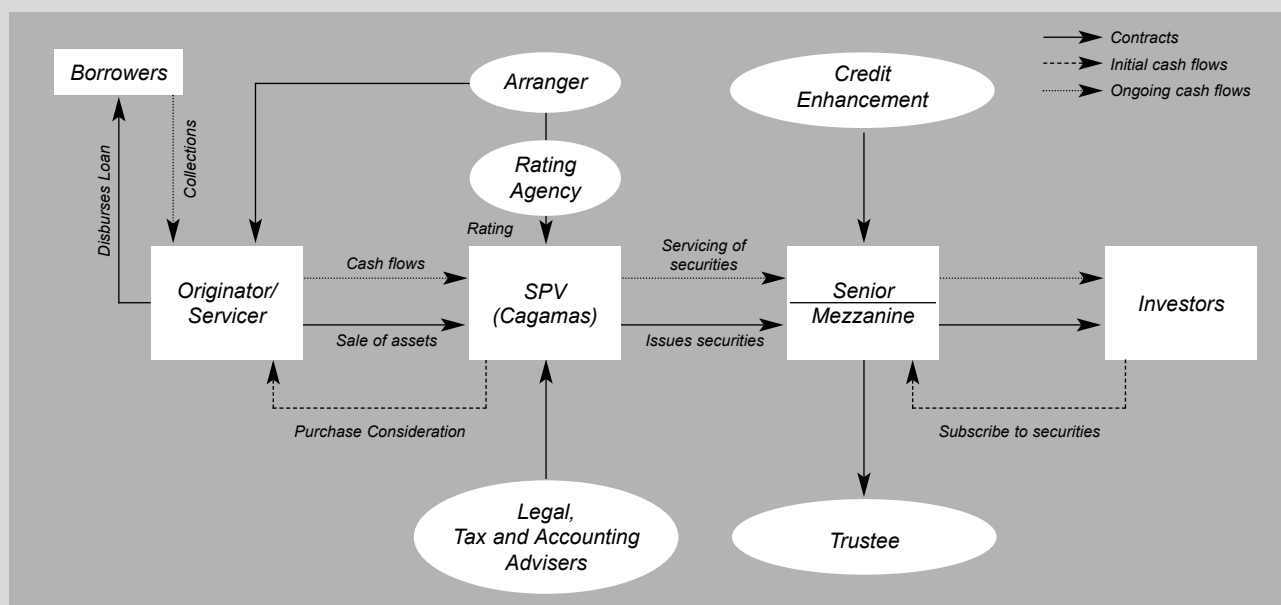
ABS are securities issued against a pool of financial assets other than mortgage loans, for example, automobile loans, credit cards and trade receivables.

CDO are structured fixed income securities with cash flows linked to the performance of the underlying debt instruments. The underlying

### CAGAMAS' SECURITISATION PROCESS

A simplified securitisation process is presented below:

**CHART 1**  
Overview of Securitisation Process



collateral that supports a CDO consists of one or more types of debt, including bank loans, high yielding bonds, emerging markets' corporate and sovereign debts and subordinated securities from structured transactions. Issues with primarily loan collaterals are known as collateralised loan obligations whilst those with bond collaterals are known as collateralised bond obligations.

In Chart 1, the borrowers/customers are granted loans/debts by the originator. The originator then sells these assets to Cagamas in return for cash proceeds or alternatively holds tradeable securities. As the special purpose vehicle (SPV) for the securitisation of housing loans, Cagamas may acquire a pool of assets from the originators and raise funds from the market to finance the purchases by issuing tradeable securities to investors such as financial institutions, asset management companies, corporations, provident and pension funds and insurance companies. The originators remain as the administrators/servicers so that the borrowers/customers continue to deal with the same entities. The servicers also manage the performance of the securitised assets including collection of monthly instalments and taking the necessary legal actions to recover loans in default.

A transaction counsel advises on all the legal aspects of the transaction including preparation of relevant documents to ensure that a true sale of the assets is effected and that the assets are ring-fenced, which is critical for bankruptcy remoteness.

The tax and accounting advisers advise on regulatory, tax and accounting issues in order to achieve the most cost-effective securitisation structure.

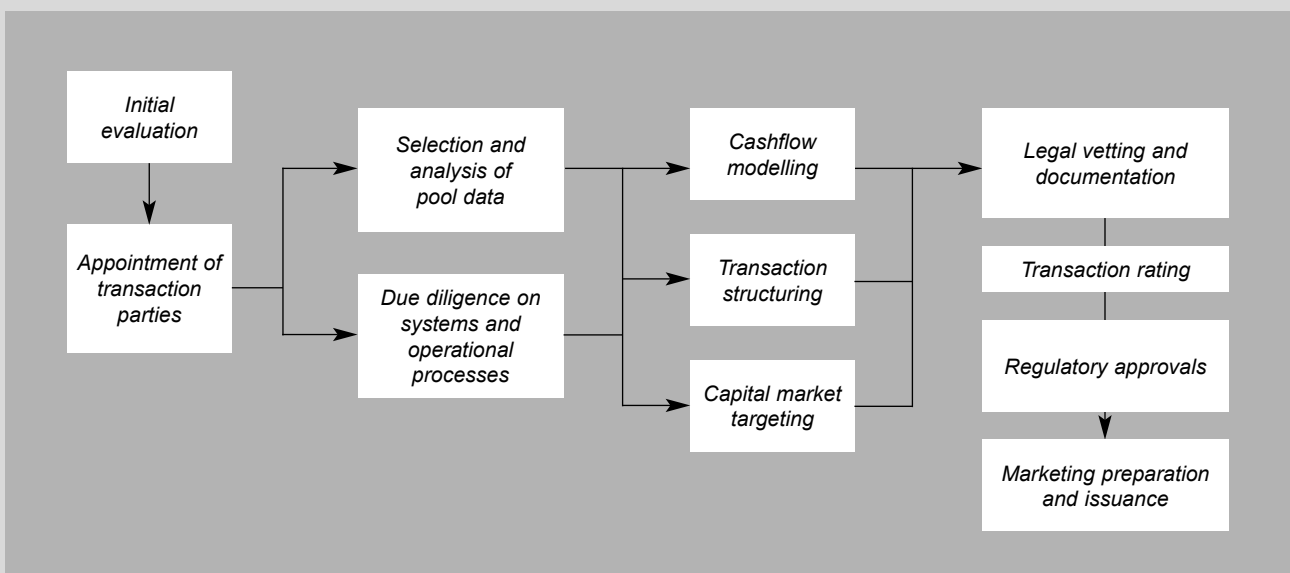
The rating agency gathers and analyses financial, industry, market and economic information, assesses the credit risk profile of the securitised assets which will affect securities pricing decisions and assigns ratings to the securities to be issued. The rating agency also disseminates on a timely basis, all appropriate information to potential and existing investors in the primary and secondary markets. The agency also undertakes annual rating reviews on the securities issued.

A third party, usually an investment bank, is appointed as an arranger to advise the seller on the structuring of a securitisation transaction, liaise with other parties involved in the transaction, and prepare and submit all documents necessary for approval by the relevant regulatory authorities for the issuance of securities. The arranger is also responsible for the pricing and distribution of the securities to the investors. It arranges the bond issue by marketing the proposed issuance and inviting potential subscribers for the securities, and ensures the completion of the entire transaction.

The reporting accountant undertakes compliance audit of eligibility criteria on the pool of assets to be securitised and assesses the IT system capability in supporting the servicing and reporting of the loans to be sold and the adequacy of back-ups and disaster recovery plans.

Upon recommendation by the rating agency, an independent consultant may be needed to conduct a historical performance analysis of the loans to be sold which encompasses portfolio stratification and static pool analysis.

**CHART 2  
Steps in a Securitisation Transaction**





A trustee is appointed to safeguard the interests of the investors. Independent of the asset originator, the trustee has wide-ranging powers to direct the affairs of the SPV, including the ability to take possession of the assets and sell them in order to repay investors.

Credit enhancement may be required to create top-rated securities acceptable to risk-conscious investors. Such credit enhancement can either be external or internal to a transaction.

## STEPS IN SECURITISATION TRANSACTION

Chart 2 presents an overview of the steps involved in a securitisation transaction.

Assuming a bank is interested in securitising its housing loans to Cagamas, the tasks involved would be as follows:

- Cagamas undertakes the initial evaluation of the feasibility of the securitisation exercise and considers the originator's capability to provide historical information and to service the loans to be securitised.
- Relevant parties involved in the transaction are identified and appointed by Cagamas, with the consent of the originator.
- Originator selects loans according to the eligibility criteria set by Cagamas. Cagamas undertakes the analysis of the loans to be securitised by the originator. At this stage, the originator must be prepared to provide historical information of its loans for cashflow modelling and performance analysis.
- Due diligence processes are undertaken to ensure that all documents of the loans to be securitised are valid and in compliance with the eligibility criteria. Due diligence would include a general review of the originator's financial strength, system assessment, underwriting policies, business procedures and servicing capability.
- Cagamas, the arranger and the rating agency will conduct cashflow modelling and transaction structuring to determine the credit enhancements and the classes of debt instruments to be issued according to the needs of investors.
- Legal counsel prepares the relevant documents and provides a legal opinion as to whether the transfer of assets to Cagamas constitutes a true sale. A rating is assigned by the rating agency to the securities to be issued. The arranger submits applications to the relevant regulatory authorities for approval, invites potential investors and markets the proposed issuance.

## BENEFITS OF SECURITISATION

### To Originator

- The assets are taken off the originator's balance sheet for accounting purposes and as a result reduces the originator's (if it is a financial institution) capital and liquidity requirements, and removes the need for it to provide general or specific provision for loans that have been securitised. In addition, it allows the originator to secure a spread over the term of the securitisation.
- Obtains lower effective cost of borrowing compared to conventional financing through savings in capital cost.
- Enables better balance sheet management as securitisation reduces assets on balance sheet and hence improves key ratios such as return-on-equity and return-on-assets, potentially leading to improvement in credit rating.
- Reduces counter party risk, and sectoral or geographical concentration risk by transferring such risks to the investors.
- Reduces reliance on bank financing and corporate debt financing as securitisation provides an additional financing source.
- Converts the originator's otherwise illiquid assets into liquid funds which could be made available for new businesses or investment opportunities and hence generate more revenue and increase profits.
- Earns service fee and hence increases fee-based income if the originator remains as servicer.
- Retains customer relationship if the originator remains as servicer.

### To Investors

- Better yield pick-up compared to other financial instruments with similar rating and maturity.
- Rating agencies' thorough review and ongoing surveillance of the securitised pool provides comfort to investors on the performance of the securities.
- Availability of high credit quality securities given the underlying asset quality and the good reputation of the parties to the transaction.
- Innovative structure can potentially give higher returns to investors with tolerance for higher risks.
- Provides more options to match their investment objectives and risk appetite.

# Cagamas Debt Securities

## **ISSUANCE OF CAGAMAS DEBT SECURITIES**

Cagamas continued to be an active issuer in the private debt securities market in 2003. As at the end of 2003, outstanding Cagamas bonds amounting to RM25,628 million, accounted for 15.6% of the outstanding private debt securities in the market.

The Company recorded 33 issues of debt securities with a total nominal value of RM17,925 million (including nine re-opening exercises) during the year, as compared with 37 issues amounting to RM19,550 million in 2002. Of these, 15 issues involving an aggregate face value of RM9,740 million were in the form of short-term Cagamas discount notes with maturities of up to 12 months. This represents 54% of the total value of new Cagamas debt securities issued in 2003. The balance comprised 15 issues of fixed rate bonds valued at RM7,865 million and three issues of Sanadat Mudharabah Cagamas (SMC) valued at RM320 million, representing 44% and 2% respectively of the total amount of new debt securities issued during the year.

All the new issues in 2003 were offered by way of tender to the Principal Dealers. Bids submitted by the Principal Dealers totalled RM35,182 million which represents a weighted average over-subscription rate of 2.08 times against the total amount of Cagamas debt securities issued. During the year, Cagamas had re-opened nine of its existing fixed rate bonds amounting to RM4,055 million with remaining tenures ranging from two to five years. The re-opening exercises enabled the Company to enlarge the size of its existing issues, thereby enhancing the liquidity of Cagamas debt securities in the secondary market.

## **REDEMPTION OF CAGAMAS DEBT SECURITIES**

Cagamas redeemed its debt securities amounting to RM16,392 million in 2003 as compared with a total redemption of RM16,117 million in 2002. The

redeemed debt securities comprised RM5,152 million of fixed rate bonds and RM11,240 million of short-term discount notes.

## **OUTSTANDING CAGAMAS DEBT SECURITIES**

As at the end of 2003, outstanding Cagamas debt securities amounted to a total nominal value of RM26,503 million, as compared with RM24,970 million as at the end of 2002. Fixed rate bonds which amounted to RM24,554 million or 92.7%, represented the largest portion of the total debt securities outstanding. Short-term discount notes amounting to RM875 million or 3.3% and SMC totalling RM1,074 million or 4% accounted for the remaining portion.

## **MARKET TURNOVER**

The volume of secondary market trading of Cagamas debt securities declined by 2.8% from RM42.9 billion in 2002 to RM41.7 billion in 2003. In the wake of two large public issues of Malaysian Government Securities (MGS) amounting to a total of RM9 billion in the first half of 2003, the volume of Cagamas debt securities traded in the secondary market declined by 32.5% to RM16.6 billion as compared with RM24.6 billion over the same period in 2002. Given the relatively sluggish purchases of loans and debts in the first half of 2003, Cagamas issued only RM5.8 billion of debt securities. However, the volume of Cagamas debt securities traded in the third quarter rose substantially by 92% to RM15.5 billion. The increased turnover of Cagamas debt securities in the third quarter was attributable to the larger issuance of Cagamas debt securities amounting to RM8.3 billion, which provided investors opportunities to invest in the higher yielding Cagamas papers vis-a-vis MGS. In line with the overall decline in secondary market trading in the fourth quarter, the volume of Cagamas debt securities traded also declined by 38.1% to

RM9.6 billion as players shifted their investments from fixed income securities to the equity market as a result of the more positive economic growth outlook.

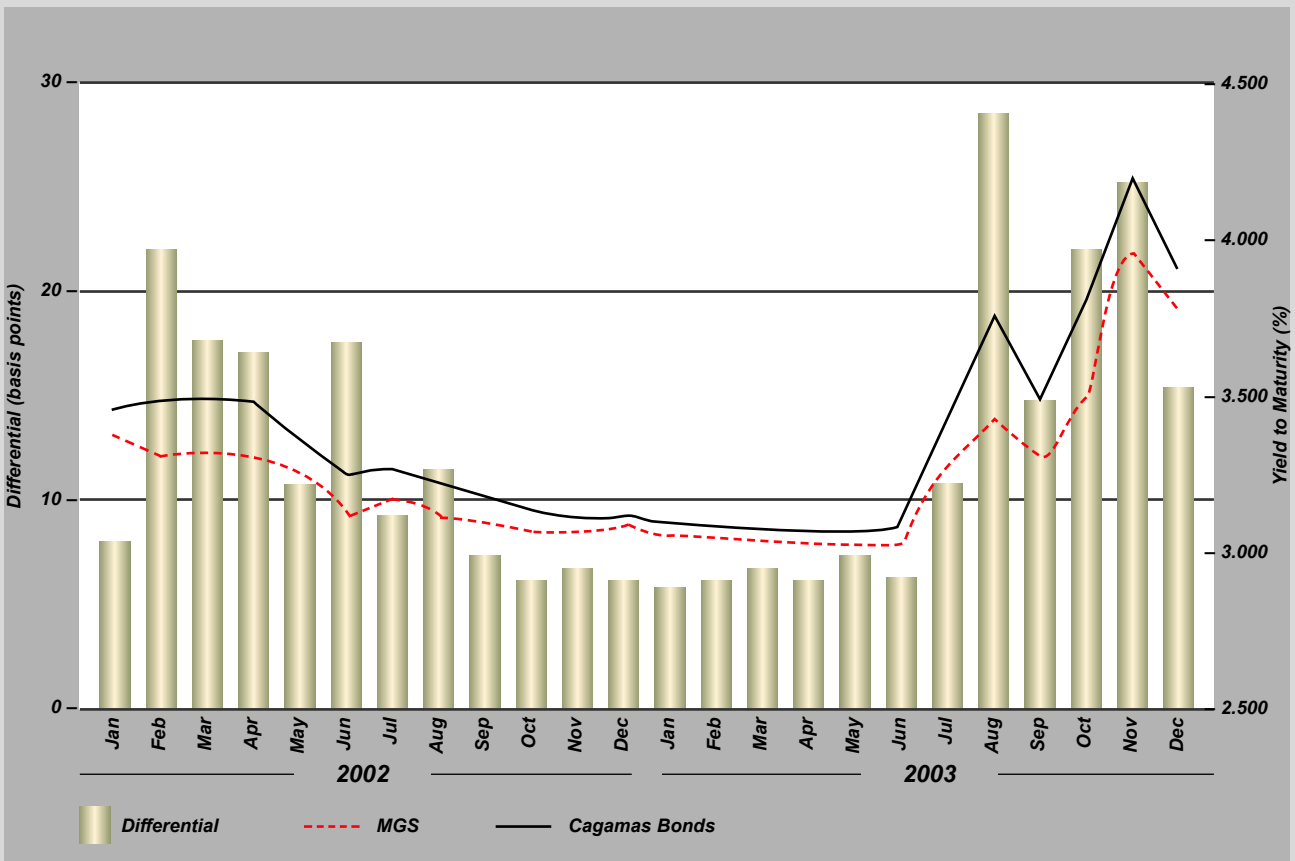
Cagamas debt securities are among the major debt instruments being traded in the secondary market, which also comprise MGS, Treasury Bills, Negotiable Instruments of Deposits, Bankers Acceptances and Bank Negara Bills. Cagamas debt securities accounted for 9.6% of the total turnover in the secondary market in 2003, as compared with 9.7% in 2002.

### YIELDS ON CAGAMAS DEBT SECURITIES

The yield of 3-year Cagamas bonds was stable in the first half of 2003. However, the yield increased substantially in the second half of 2003 as illustrated

in Chart 3. In the first half of 2003, the yield of 3-year Cagamas bonds was hovering at 3.04% with general market perception that interest rates would remain low given the threat of global deflation and the risk of slow domestic economic growth as Severe Acute Respiratory Syndrome (SARS) caused disruptions to economic activities. Notwithstanding the continued excess liquidity, bond yields firmed up in the third quarter. The yield of 3-year Cagamas bonds increased sharply by 44 basis points to 3.50% in the third quarter. The sharp rise was mainly due to the larger than expected issuance of Government papers and the sell-down of MGS as market took the view that the interest rate cycle had bottomed out with the improved economic outlook. In the fourth quarter, the yield of 3-year Cagamas bonds increased further by 41 basis points from 3.50% as at the end of the third quarter to 3.91% as at the end of 2003. Reflecting the positive economic growth

**CHART 3**  
Yield Differential Between 3-year Cagamas Bonds and Malaysian Government Securities



**TABLE 5**  
**Distribution of Cagamas Debt Securities Holders**

Holders	2003		2002	
	RM million	%	RM million	%
Banking Institutions	15,648	59.0	12,697	50.8
Insurance Companies	2,442	9.2	2,172	8.7
Pension and Provident Funds	7,700	29.1	8,902	35.7
Other Investors	713	2.7	1,199	4.8
<b>Total</b>	<b>26,503</b>	<b>100.0</b>	<b>24,970</b>	<b>100.0</b>

outlook, there was a shift in asset allocation away from bonds to equities. This contributed to the increase in yields in the fourth quarter.

As shown in Chart 3, the yield differential between 3-year Cagamas bonds and MGS in the secondary market during the year was between four and 28 basis points. Although the yield differential was generally stable at about four to six basis points in the first and second quarters, the differential widened to 28 basis points in the third quarter due to the volatile bond market conditions. The spread between 3-year Cagamas bonds and MGS continued to stay wide, ranging from 22 to 25 basis points over a large part of the last quarter before narrowing to 15 basis points as at 31 December 2003 due to bargain hunting activities towards the end of the year.

#### **HOLDERS OF CAGAMAS DEBT SECURITIES**

As shown in Table 5, holdings of Cagamas debt securities by banking institutions as at 31 December 2003 increased to 59% of the total holdings from 50.8% as at the end of 2002. Conversely, the holdings of Cagamas debt securities by the non-

banking institutions declined from 49.2% in 2002 to 41% for the same period. The increase in holdings of Cagamas papers by banking institutions reflected the increased demand for higher yielding liquid assets papers. Meanwhile, there was a decline in holdings of Cagamas papers by pension and provident funds from 35.7% to 29.1% due to the availability of a large supply of Government papers which provided them with other avenues for investment.

#### **GENERAL OUTLOOK**

Cagamas continued to receive firm demand for its primary market issues in 2003 as evidenced by the weighted average over-subscription rates of 1.83 and 2.38 times for Cagamas notes and bonds respectively. The Company was able to maintain its position as the single largest issuer in private debt securities as evidenced by the total issue in 2003 amounting to RM17,925 million.

In 2004, Cagamas anticipates to continue to be an active issuer of private debt securities since it is expected that the volume of conventional and Islamic business will be higher than in 2003.





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By helping to make housing loans more affordable, we hope that many more Malaysians will enjoy the security of family life in a conducive home environment.

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# Statement on Corporate Governance

*The Board of Directors (Board) of Cagamas is committed to ensuring that the Company practises the highest standards of corporate governance so that its affairs are conducted with integrity and professionalism with the objectives of safeguarding and enhancing shareholders' value and the financial performance of the Company and of contributing to the healthy development of the bond market.*

*The Board is pleased to report that the Company has applied the principles and best practices of the Malaysian Code on Corporate Governance (Code), as set out below.*

## **1. BOARD OF DIRECTORS**

### **1.1 Composition**

*As at 31 December 2003, the Board comprised 14 Non-Executive Directors, consisting of senior officers from Bank Negara Malaysia (BNM) and Chief Executives or Directors of selected financial institutions nominated by The Association of Banks in Malaysia, the Association of Finance Companies of Malaysia and the Association of Merchant Banks in Malaysia (collectively referred to as the Associations) and the Board.*

*Based on the Code's broad description, Cagamas' Directors are considered independent as they are independent of management and do not participate in the day-to-day running of the Company's business. The Directors do not hold shares in their personal capacity and are not influenced by any significant shareholder of the Company. There is no one group of Directors or any individual Director to dominate the Board's discussions or its decision-making process. The Directors provide objective and independent views for the Board's deliberations.*

*The Board is effective in leading and controlling the Company as the Directors have varied and in-depth experience in financial products and markets. The Directors bring to the Board diverse skills and knowledge in banking, capital market, accounting, economics, information technology and financial management. Cagamas was set up to promote the secondary mortgage market and to broaden and deepen the domestic debt securities market. A combination of nominees from BNM and the financial institutions ensures that the Company effectively plays its developmental role in the promotion of the bond market and at the same time, remains profit-motivated to gain market credibility amongst its investors and shareholders.*

*The Board has drawn up the terms of reference for the Board and the Board Committees. In addition, the Board has also approved the delegation of authority and the assignment of limits on the scope and responsibilities of the Board Committees and the Chief Executive Officer. The Chairman leads the discussions on overall strategies, policies and the conduct of the Company's business during Board meetings while the Chief Executive Officer is responsible for the implementation of these strategies and policies as well as the day-to-day running of the Company's business.*

### **1.2 Duties and Responsibilities**

*The Board oversees the conduct and performance of the Company's business by reviewing and approving the Company's annual strategic business plan as well as the annual budget. Updates on the key operations of the Company are provided to the Board for review at every meeting.*

*The Board has the overall responsibility to ensure that there is proper oversight of the management of risks in the Company. In this connection, the Board has established a Board Risk Committee to oversee the development of risk management strategies, policies, procedures and infrastructure to assess, measure, manage, monitor and report risk exposures.*

*The Board, based on the recommendations of the Board Staff Compensation and Organisation Committee, also approves the appointment and replacement of Senior Management staff and reviews their performance and compensation.*

*In carrying out its duties and responsibilities, the Board is committed to transparency and seeks to avoid any conflict of interest situations arising from transactions that may raise questions or doubts as to the integrity of its decisions.*

## **2. BOARD MEETINGS**

*During the financial year ended 31 December 2003, the Board met four times to deliberate on a wide range of matters, including the Company's business performance, risk profile, business plans and other strategic issues that affect the Company's business. Details of Directors' attendance at Board meetings held in 2003 are set out on page 6 of this Annual Report.*

*Board papers providing updates on operational, financial and corporate developments are sent to the Directors in advance of each meeting to provide them adequate time to study the matters to be discussed at the meeting.*

*In furtherance of their duties, the various Board Committees are entitled to seek independent professional advice at the Company's expense, as and when deemed necessary. All Directors have direct access to the advice of the Senior Management and the services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that all applicable rules and regulations are complied with.*

## **3. APPOINTMENT AND RE-ELECTION OF DIRECTORS**

*A majority of the Directors are nominated by BNM and the Associations to be members of the Board. These nominations are then presented to the Board for its approval. In addition, the Board may nominate any person to be a member of the Board from time to time. These persons are usually Chief Executive Officers or Directors of financial institutions.*

*In view of the objectivity of BNM and the Associations and the adequacy of the present procedure, the Board is of the view that a nomination committee to nominate Directors to the Board is not necessary.*

*A separate annual assessment of Directors on the Board is not conducted by Cagamas since the Directors are either Chief Executives or Directors of financial institutions and are subject to supervision and periodic review by BNM.*

*In accordance with the Company's Articles of Association, at least one-third of the Directors retire from office at each Annual General Meeting of the Company and may offer themselves for re-election. The Articles also state that Directors appointed by the Board during a particular year are subject to election by the shareholders at the next Annual General Meeting held following their appointments.*



#### **4. DIRECTORS' TRAINING**

*Most of the Directors are Directors of public-listed companies and have attended the Kuala Lumpur Stock Exchange (KLSE) accredited training programme as required under the KLSE's guidelines on training for Directors. Notwithstanding this, the Directors are regularly updated on the relevant new laws and regulations at Board meetings.*

#### **5. DIRECTORS' REMUNERATION**

*The Board, as a whole, determines the remuneration of each Director based on the recommendation of the Board Finance Committee. Directors' remuneration is determined based on their roles on the Board. The Chairman abstains during discussions on the Chairman's fee.*

*The revised Directors' annual fees as approved by the shareholders at the last Annual General Meeting are RM7,000 per annum for each Director and RM10,000 per annum for the Chairman. In addition, the Directors are paid a meeting allowance of RM500 for each meeting that they attend. The aggregate remuneration payable to the Directors is RM115,331 comprising Directors' fees of RM85,331 and meeting allowances of RM30,000.*

#### **6. BOARD COMMITTEES**

*In discharging its duties, the Board is assisted by five Committees, which operate within specified terms of reference. The Committees comprise the Board Executive Committee, Board Finance Committee, Board Audit Committee, Board Staff Compensation and Organisation Committee and Board Risk Committee. The Board Executive Committee*

*has the authority to decide and act on behalf of the Board on all matters in between Board meetings. The other Committees are assigned to examine particular issues and are empowered by the Board to either approve Management's recommendations or report to the Board with their recommendations for the Board's final decision.*

#### **7. INVESTOR RELATIONS AND SHAREHOLDERS' COMMUNICATION**

*The Board recognises the importance of effective and timely communication with all its shareholders and investors. The Company's strategies, plans, financial information and new products are communicated to the shareholders and investors through letters, the Annual Report, press statements and announcements and other financial information providers e.g. Bloomberg and Reuters. The principal forum for dialogue with shareholders continues to be the Annual General Meeting. At this Meeting, the Chairman highlights the performance of the Company and provides the shareholders every opportunity to raise questions and seek clarifications on the business and performance of the Company.*

*The Company also publishes half-yearly and yearly financial results and disseminates press releases on its debt securities issuance activities in major newspapers and wired services. In addition, the Company also maintains a website at [www.cagamas.com.my](http://www.cagamas.com.my) which provides comprehensive up-to-date information on the Company's products, Cagamas rates and operations.*

*As all the Company's shareholders are represented through the Associations which nominate Directors to the Board, the Board is of the view that the identification of a senior*

*independent non-executive Director is not necessary since shareholders' concerns can be raised through the Associations. The Company's shareholders are represented by two Directors from BNM, five Directors nominated by The Association of Banks in Malaysia, two Directors nominated by the Association of Finance Companies of Malaysia, two Directors nominated by the Association of Merchant Banks in Malaysia and three Directors from the foreign banks nominated by the Board of Directors.*

## **8. ACCOUNTABILITY AND AUDIT**

### **8.1 Financial Reporting**

*The Board aims to present a balanced assessment of the Company's financial position and prospects in its annual financial statements to shareholders and investors.*

*The Companies Act, 1965, requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company. Following discussions with the External Auditors, the Directors determine and declare that in preparing the financial statements, the Company has used appropriate accounting policies which are consistently applied and supported by reasonable judgements and estimates and that all accounting standards which they consider applicable have been followed.*

### **8.2 Internal Control**

*The Company's Statement on Internal Control is set out on page 90 of this Annual Report.*

### **8.3 Relationship with Auditors**

*The Report on the role of the Board Audit Committee in relation to the Internal and External Auditors is described on pages 86 to 89 of this Annual Report.*

*Through the Board Audit Committee, the Company has established transparent and professional relationships with the Company's Internal and External Auditors. The Company's External Auditors attended two meetings during the year to report on the audits for financial year ended 31 December 2002 and half-year ended 30 June 2003.*

*Auditors' remuneration is shown on page 168 of this Annual Report.*

# Report of the Board Audit Committee

## 1. MEMBERS

The Board Audit Committee (the Committee) comprises the following members:

- **Dato' Tan Teong Hean (Chairman)**
- **Dato' Wan Ismail Abdul Rahman**
- **Encik Zarir Jal Cama**

Based on the broad description in the Malaysian Code on Corporate Governance, all the members are considered independent Non-Executive Directors as they do not participate in the day-to-day running of the Company's business and are independent of Management. The Directors do not hold shares in their personal capacity and are not influenced by any significant shareholder of the Company. There is no one group of Directors or any individual Director to dominate the Committee's discussions or decision-making. The Directors bring an independent view to the Committee's deliberations.

## 2. TERMS OF REFERENCE

### 2.1 Authority

- (a) The Committee shall have unlimited access to all information and documents relevant to its activities, to the Internal and External Auditors, and to Management of the Company.
- (b) The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise to attend meetings whenever it deems necessary.

- (c) The Committee is authorised by the Board to investigate any activity within its purview and members of the Committee shall direct all employees to co-operate as they may deem necessary.

### 2.2 Size and Composition

- (a) The Committee shall be appointed by the Board from amongst the Non-Executive Directors and shall comprise a minimum of three members, a majority of whom shall be independent Directors.
- (b) If for any reason the number of members is reduced to below three, the Board must fill the vacancies within three months.
- (c) The members of the Committee shall elect a Chairman from amongst their members who shall be an independent Director.
- (d) At least one member of the Committee:
  - (i) must be a member of the Malaysian Institute of Accountants (MIA); or
  - (ii) if he is not a member of the MIA, he must have at least 3 years' working experience and:
    - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
    - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

- (e) *No member of the Committee shall have a relationship, which in the opinion of the Board will interfere with the exercise of independent judgement in carrying out the functions of the Committee.*

### **2.3 Meetings**

- (a) *Meetings will be held once a quarter or at a frequency to be decided by the Chairman and the Committee may invite any person to be in attendance to assist in its deliberations.*
- (b) *The Chief Executive Officer, the Chief Operating Officer, the Senior Manager, Business Operations and the Head of Internal Audit shall normally attend the meetings. At least once a year, the Committee shall meet with the External Auditors without the presence of Management.*
- (c) *The quorum shall be two members.*
- (d) *The Secretary to the Committee shall be the Head of Internal Audit.*

### **2.4 Duties and Responsibilities**

- (a) *Review the half-yearly and annual financial statements of the Company prior to submission to the Board, to ensure compliance with disclosure requirements and the adjustments suggested by the External Auditors. These include:*
  - (i) *Review of the auditors' report and qualifications (if any) which must be properly discussed and acted upon to remove the auditors' concerns in future audits;*

- (ii) *Significant changes and adjustments in the presentation of financial statements;*
  - (iii) *Major changes in accounting policies and principles;*
  - (iv) *Compliance with accounting standards and other legal requirements;*
  - (v) *Material fluctuations in statement of balances;*
  - (vi) *Interim financial reports and preliminary announcements;*
  - (vii) *Significant variations in audit scope; and*
  - (viii) *Significant commitments or contingent liabilities.*
- (b) *Review the scope and results of Internal Audit procedures including:*
    - (i) *Compliance with internal auditing standards, the Company's internal controls, policies and other legal requirements;*
    - (ii) *Adequacy of established policies and procedures and internal controls;*
    - (iii) *Co-ordination between the Internal and External Auditors;*
    - (iv) *Exercising independence and professionalism in carrying out Internal Audit work;*
    - (v) *Restrictions placed on Internal Audit by Management;*
    - (vi) *Reporting of results;*
    - (vii) *Recommending changes in accounting policies to the Board; and*
    - (viii) *Recommending and ensuring the implementation of appropriate remedial and corrective actions regularly.*

- (c) *Responsible for the establishment of the Internal Audit functions which include:*
- (i) *Approval of the Internal Audit Charter;*
  - (ii) *Approval of the Internal Audit Plan;*
  - (iii) *Reviewing the performance of the Head of Internal Audit, in consultation with Management;*
  - (iv) *Approval of the appointment or termination of the Head of Internal Audit;*
  - (v) *Notification of the resignation of Internal Audit staff and to provide opportunity for such staff to submit reasons for resigning;*
  - (vi) *Reviewing the adequacy of the scope, functions and resources of the Internal Audit Department;*
  - (vii) *Ensuring that the Internal Audit functions have appropriate standing within the Company;*
  - (viii) *Alignment of goals and objectives of the Internal Audit functions with the Company's overall goals;*
  - (ix) *Placing Internal Audit under the direct authority and supervision of the Committee; and*
  - (x) *Reviewing the assistance given by the Company's officers to the Auditors.*
- (d) *Recommend to the Board the appointment of External Auditors, the audit fee and any question of resignation and dismissal of the External Auditors.*
- (e) *Discuss matters arising from the previous year's audit, review with the External Auditors the scope of their current year's audit plan, their evaluation of the accounts and internal control systems, including their findings and recommended actions.*
- (f) *Review changes in statutory requirements and any significant audit problems that can be foreseen as a result of the previous year's experience or because of new developments.*
- (g) *Evaluate and review the role of Internal and External Auditors from time to time.*
- (h) *Review any significant related party transactions or conflict of interest situation that may arise within the Company.*
- (i) *Review any significant transactions, which are not a normal part of the Company's business.*
- (j) *Perform any other functions as may be delegated by the Board from time to time.*

### 3. MEETINGS

The Committee held four meetings during the financial year ended 31 December 2003 with the Chief Executive Officer and the Head of Internal Audit in attendance. Other senior officers of the Company attended some of the meetings by invitation. The attendance of the members was as follows:

<b>Members</b>	<b>Attendance</b>
• Dato' Tan Teong Hean	4/4
• Dato' Wan Ismail Abdul Rahman (appointed on 4.6.2003)	3/3
• Encik Zarir Jal Cama (appointed on 16.9.2003)	1/1
• Encik Mohamed Azmi Mahmood (resigned on 4.6.2003)	0/1
• Encik Michael Andrew Hague (resigned on 16.9.2003)	1/3

The Company's External Auditors attended two meetings during the year to report on the audits for financial year ended 31 December 2002 and half-year ended 30 June 2003. During these meetings, the Board Audit Committee had the opportunity to meet with the External Auditors without the presence of Management.

#### **4. SUMMARY OF ACTIVITIES**

During the financial year, the Committee carried out its duties, as set out in the terms of reference. A summary of its main activities is as follows:

- (a) Reviewed and approved the Internal Audit Plan for 2004;
- (b) Reviewed the results of the internal audit procedures, i.e. the Internal Auditor's audit findings and recommendations and Management's responses to the audit findings and recommendations;
- (c) Monitored the progress of the Internal Audit Plan and the implementation of the audit recommendations in order to ensure that appropriate actions have been taken or are being taken on the audit recommendations;
- (d) Reviewed the performance of Head of Internal Audit;
- (e) Reviewed the scope of the audits by the External Auditors;
- (f) Recommended the appointment of External Auditors and their audit fees to the Board of Directors;
- (g) Reviewed the results of the half-yearly and year-end audits by the External Auditors and discussed the findings and other concerns of the External Auditors; and

- (h) Reviewed the audited half-yearly and the year-end financial statements and ensured compliance with disclosure requirements of relevant authorities.

#### **5. INTERNAL AUDIT FUNCTION**

The Company has an established Internal Audit Department, which reports to the Committee and assists the Board in discharging its responsibilities to ensure that the Company maintains a sound and effective system of internal control.

The Internal Audit Department undertakes the internal audit functions of the Company in accordance with the approved Internal Audit Charter and the annual Internal Audit Plan approved by the Committee.

The Internal Audit Plan is derived from the results of the systematic risk assessment process, whereby the Company's risks are identified, prioritised and linked to the key processes and auditable areas.

Overall, the audits conducted during the financial year focused on the independent review of the adequacy of the Company's system of internal controls so as to ensure that such system continues to operate effectively. The internal audit reports are presented to the Committee for its consideration and to the Board for its information.

# Statement on Internal Control

*The Board of Directors has overall responsibility for ensuring that the Company maintains a sound and effective system of internal control and for reviewing its adequacy and integrity. The system on internal control covers, inter alia, risk management, financial, organisational, operational and compliance controls. The Board however, recognises that such a system cannot eliminate the risk of failure to achieve business objectives, rather, it is designed to manage and control the risks to acceptable levels. Accordingly, it can only provide reasonable, but not absolute assurance, against material misstatement or loss.*

*During the year, a new Board Committee known as the Board Risk Committee (BRC) was set up by the Board. The BRC is responsible for overseeing the management of risks associated with the Company's operations and activities. The Risk Management Unit (RMU) was set up to formulate, review and implement sound risk management policies, strategies and procedures within the Company. The RMU reports directly to the BRC, which will enable the RMU to present an independent view of the Company's risk exposures. The Company's Risk Management Framework defines the sources of key business risks, outlines the roles and responsibilities of the Board of Directors and the key committees in managing specific areas of risks and sets out the Company's overall approach to managing risks. Further details on risk management are set out in pages 91 to 93 of this Annual Report.*

*The Internal Audit Department provides assurance to the Board by conducting an independent review on the adequacy, effectiveness and integrity of the Company's system of internal control. It adopts a risk-based approach in accordance with the annual audit plan approved by the Board Audit Committee. The results of the audits are submitted to the Board Audit Committee, which meets four times a year. The audit plan and audit reports are also submitted to the Board to keep the Board informed of any weaknesses in the Company's internal control*

*system. Where weaknesses are identified, new procedures have been or are being put in place to strengthen controls. During the financial year, none of the weaknesses highlighted have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Company's Annual Report.*

*Other key elements of the Company's system of internal control are:*

- Clearly defined lines of responsibility and delegation of authority to Committees of the Board, Management and staff of the Company;*
- Clearly documented internal policies and procedure manuals such as Treasury Management Policy and Market Risk Policy manuals. These manuals are reviewed at least once in every six months;*
- An annual business plan and detailed budget which are approved by the Board. The Company also monitors monthly actual results against the budget, with major variances being followed up;*
- Regular reporting to the Board. Reports on the Company's financial position, status of loans and debts purchased, bonds and notes issued and interest rate swap transactions are provided to the Board at least once a quarter. Where necessary, other issues such as legal, accounting and strategic matters will also be reported to the Board; and*
- Regular and comprehensive information is provided to Management, covering financial and operational reports, at least once a month.*

# Risk Management

*Recognising the strategic importance of risk management in protecting shareholders' value, the Company has been progressively enhancing its risk management practices and capabilities as well as improving the governance and reporting of risk information, benchmarking them to best practices.*

*During the year, the Board of Directors (Board) approved the establishment of a new Board Committee, i.e. the Board Risk Committee (BRC). The BRC is responsible for overseeing the management of risks associated with the Company's operations and activities.*

*The BRC is assisted by the Risk Management Unit (RMU), which was set up in December 2001, with the objectives of overseeing and independently reporting the Company's risk exposures and coordinating the management of risks on an enterprise-wide basis. The RMU is independent of other departments and units involved in risk-taking activities.*

*The Board also formalised the Company's Risk Management Framework in September 2002 which sets out the Company's overall approach to managing risks, including the identification of relevant risks, the risk management methodology used by the Company and responsibilities and reporting structures of parties involved in the management of risks. Since then, the Risk Management Framework has been reviewed to include inter alia, the RMU Charter which outlines the role, scope, authority and independence of the RMU.*

*The Company's primary objective of risk management is to effectively manage and link risks with rewards in order to maximise the Company's shareholders' value as well as to ensure that the Company is able to sustain its performance.*

*To achieve this primary objective, the Company's plan is to develop and implement an enterprise-wide risk management strategy. This strategy entails:*

- aligning business strategy with the corporate risk management policy;*
- establishing a risk assessment and risk-based audit plan;*
- developing risk models, systems and data management capabilities to support the management of risks on a consistent basis;*
- inculcating a corporate risk awareness culture; and*
- improving risk transparency to stakeholders.*

## **ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT**

*In line with best practices and good corporate governance, the Board has the overall responsibility to ensure that there is proper oversight of the management of risks in the Company. The Board sets the risk appetite and tolerance level that are consistent with the Company's overall business objectives and desired risk profile. The Board also regularly reviews and approves all significant risk management policies and risk exposures.*

*The Board is assisted by the BRC to ensure that there is effective oversight and development of strategies, policies, procedures and infrastructure to manage the Company's risks.*

*Senior Management (Chief Executive Officer, Chief Operating Officer and Senior Manager, Business Operations) is responsible for the implementation of the policies laid down by the Board by ensuring that there are adequate and effective operational procedures, internal controls and systems for assessing, measuring, controlling, monitoring and reporting risks.*

*To promote independence and to ensure adequate consideration of risk assessment reports and actions to be taken, the RMU reports directly to the BRC and administratively to the Chief Executive Officer.*



## **RISKS FACED BY THE COMPANY**

The Company faces the following risks:

- Market risk;
- Liquidity risk;
- Credit risk; and
- Operational risk.

### **MARKET RISK**

Market risk is the risk of losses arising from on- and off-balance sheet positions as a result of adverse movements in the level or volatility of market interest rates or prices. This is the principal risk faced by the Company in its operations. The types of market risks related to the Company's operations are price risk, pipeline risk, funding mismatch risk, reinvestment risk, basis risk, over-crowding risk and yield curve risk.

To facilitate the control of these risks, the Company closely monitors the secondary market trading of bonds and prevailing market expectations on interest rates and bond yields. The Company's ability to issue debt securities within the shortest possible time also reduces the Company's exposure to pipeline risk. To minimise the impact of repurchases on its cash flow, the Company has also incorporated compulsory replacement of all repurchased loans and debts, with the exception of housing loans, where replacement remains optional.

In December 2001, the Board approved the Treasury Management Policy (TMP) as a framework within which the Company's exposures to various treasury risks are managed. The TMP sets out, inter alia, the structure and functions of the Treasury Department, policies regarding liquidity management, funding and investment, the management of risks relevant to treasury activities and authorised transactions and limits for treasury activities.

In line with the Company's plan to establish an enterprise-wide approach to managing risks and having identified market risk as the primary risk faced by the Company, the Board approved the Market Risk Policy in August 2003. The Market Risk Policy sets out, inter alia, the definition and types of market risk, the strategy and policies in the management of market risk and the roles and responsibilities of parties involved in the management of market risk.

To strengthen the Company's management of market risk, the Company has implemented an Asset Liability Management System which enables the Company to simulate and perform gap, margin, duration and sensitivity analysis using rate scenarios and assumption builders on its total portfolio. Duration and sensitivity analysis of the Company's forecast net interest income are used for decision-making purposes and to manage the Company's exposure to changes in interest rates.

The Company also uses derivative financial instruments such as interest rate futures and interest rate swaps to manage and hedge its exposure to fluctuations in market interest rates. The Company does not undertake any treasury activity that is unrelated to its underlying cash flows or is purely speculative in nature.

### **LIQUIDITY RISK**

Liquidity risk arises when the Company does not have sufficient funds to meet its liabilities as and when they fall due. This includes the risk that borrowed funds may not be available when the Company requires them or that they will not be available for the required period or at an acceptable cost.

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

adequate undrawn funding sources for possible use to meet its debt obligations. Close monitoring and planning of cash flows and the Company's ability to issue notes for short-term funding needs also helps to mitigate the Company's liquidity risk.

## **CREDIT RISK**

Credit risk is the potential earnings volatility caused by the failure of the Company's customers or counter parties to fulfill, their financial obligations in a timely manner. As a result, Cagamas may have to replace the transaction with a different counter party or borrow from the inter-bank money market.

Another form of credit risk arises from the investments made by the Company, where changes in the market's perception of the issuer's financial strength and credit quality may result in adverse price movements of the investments. The Company may face financial losses when the investments are liquidated prior to their maturity.

The Company purchases loans and debts on with recourse basis. Most of the Company's purchases of loans and debts are from financial institutions which are supervised by Bank Negara Malaysia. Hence, the likelihood of default by the selling institutions is minimised. The Company's loans and debts are also subjected to an annual audit to ensure that the loans and debts purchased are of the quality required by Cagamas.

The Company mitigates its credit risk through credit policies and limits approved by the Board. The parameters in setting credit limits are reviewed by the Board from time to time. The credit limits for counter parties for purchases of loans and debts, investments and money market transactions are regularly reviewed and monitored. There are strict guidelines and limits on permitted investments and these investments are restricted to high quality papers. The primary objective of investments is to

manage the Company's funds by optimising the return on investments, within the constraints of safety and liquidity, to match the benchmark set by the Board. It is the Company's policy to liquidate its investments only under limited circumstances and within a reasonable time as specified in the Company's TMP.

## **OPERATIONAL RISK**

Operational risk is the potential exposure to financial or other damage resulting from inadequate or failed internal processes, human behaviour, systems or from external events. It also includes human resources, legal and reputation risks.

The Company mitigates its operational risk by having comprehensive internal controls, systems and procedures that are reviewed on a regular basis and are subjected to regular audits by the Internal Auditors. The Company has in place a comprehensive Business Continuity Plan (BCP) to minimise the impact from potential internal and external disaster disruptions to the Company's operations. The BCP is updated on a regular basis in line with changes in business processes and tested to ensure that the BCP remains relevant.

The Company is moving towards integration of all its computer systems. In this connection, the Company is in the final stages of implementation of an integrated Treasury Management System and Loans Processing System 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 Company to maintain and monitor limits and to receive alerts on any breach of limits.

# Dasar Keselamatan dan Kesihatan Pekerjaan

## *Occupational Safety and Health Policy*

Sebuah Jawatankuasa Keselamatan dan Kesihatan (Jawatankuasa) telah ditubuhkan oleh Cagamas dalam bulan Julai 2000 sejajar dengan usaha Kerajaan untuk menimbulkan kesedaran terhadap keselamatan dan kesihatan pekerja di dalam komuniti perniagaan.

Selaras dengan Visi Cagamas untuk menyemai budaya korporat yang penyayang dan bertanggungjawab, Jawatankuasa tersebut telah menyediakan Garis Panduan Kesedaran Keselamatan dan Kesihatan yang antara lain merangkumi Penyata Dasar Keselamatan dan Kesihatan Syarikat.

Cagamas adalah komited untuk melaksanakan Penyata Dasar tersebut dan akan mengambil langkah-langkah yang perlu dan praktikal, menurut Akta Keselamatan dan Kesihatan Pekerjaan 1994 (OSHA), untuk:

- Menyediakan dan mengekalkan suasana kerja yang selamat dan sihat untuk para pekerja;
- Mengekalkan tempat kerja dan peralatan pejabat di dalam keadaan yang selamat dan tanpa risiko kepada kesihatan;
- Memberikan maklumat, panduan, latihan dan pengawasan sepertimana yang diperlukan dan praktikal bagi memastikan keselamatan dan kesihatan para pekerja Syarikat dan pelawat; dan
- Mematuhi keperluan-keperluan lain OSHA.

*In support of the Government's efforts to create awareness of occupational safety and health in the business community, Cagamas had established a Safety and Health Committee (Committee) in July 2000.*

*In keeping with the Cagamas Vision of inculcating a caring and responsible corporate culture, the Committee issued the Safety and Health Awareness Guidelines, which amongst others, include a Safety and Health Policy Statement for the Company.*

*Cagamas is committed to this Policy Statement and will take all necessary steps, as far as practicable, in compliance with the Occupational Safety and Health Act 1994 (OSHA), to:*

- *Provide and maintain a safe and healthy working environment for its employees;*
- *Maintain its premises and equipment in a condition that is safe and without risks to health;*
- *Provide information, instruction, training and supervision as is necessary and practicable to ensure the safety and health of its employees and visitors; and*
- *Adhere to all other requirements of the OSHA.*

# Maklumat Perangkaan

## Statistical Information

### PINJAMAN DAN HUTANG BELUM LUNAS DALAM PEGANGAN

#### OUTSTANDING LOANS AND DEBTS HELD

	1999		2000		2001		2002		2003	
	RM juta RM million	%	RM juta RM million	%	RM juta RM million	%	RM juta RM million	%	RM juta RM million	%
<b>Jenis Pinjaman / Loan Type</b>										
Pinjaman Perumahan / Housing Loans										
– Konvensional / Conventional	17,493	86.9	17,803	79.4	15,309	68.8	14,579	56.0	15,140	55.4
– Secara Islam / Islamic	120	0.6	213	1.0	143	0.6	244	0.9	345	1.2
Hutang Sewa Beli dan Pemajakan Hire Purchase and Leasing Debts										
– Konvensional / Conventional	1,659	8.2	3,844	17.2	6,437	28.9	10,513	40.4	11,236	41.1
– Secara Islam / Islamic	–	–	–	–	–	–	459	1.8	563	2.1
Pinjaman Harta Perindustrian Industrial Property Loans										
	868	4.3	550	2.4	377	1.7	238	0.9	55	0.2
<b>Jumlah / Total</b>	<b>20,140</b>	<b>100.0</b>	<b>22,410</b>	<b>100.0</b>	<b>22,266</b>	<b>100.0</b>	<b>26,033</b>	<b>100.0</b>	<b>27,339</b>	<b>100.0</b>

#### Penjual / Seller

Bank Perdagangan / Commercial Banks	10,868	54.0	11,147	49.7	10,332	46.4	9,888	38.0	13,194	48.3
Syarikat Kewangan / Finance Companies	5,687	28.2	8,105	36.2	9,851	44.2	13,910	53.4	12,702	46.5
Bank Saudagar / Merchant Banks	88	0.4	300	1.3	344	1.6	365	1.4	237	0.8
Kerajaan / Government	2,844	14.1	2,169	9.7	1,493	6.7	847	3.3	–	–
Perbadanan / Corporations	533	2.7	476	2.1	103	0.5	320	1.2	414	1.5
Institusi Perbankan Islam Islamic Banking Institutions										
	120	0.6	213	1.0	143	0.6	703	2.7	792	2.9
<b>Jumlah / Total</b>	<b>20,140</b>	<b>100.0</b>	<b>22,410</b>	<b>100.0</b>	<b>22,266</b>	<b>100.0</b>	<b>26,033</b>	<b>100.0</b>	<b>27,339</b>	<b>100.0</b>

#### Jenis Opsyen / Option Type

Kadar Tetap / Fixed Rate	14,320	71.1	17,077	76.2	18,418	82.8	22,516	86.5	25,835	94.5
Kadar Terapung / Floating Rate	2,486	12.3	2,580	11.5	3,050	13.7	2,014	7.7	509	1.9
Kadar Boleh Tukar / Convertible Rate	3,214	16.0	2,540	11.3	655	2.9	800	3.1	87	0.3
Secara Islam / Islamic	120	0.6	213	1.0	143	0.6	703	2.7	908	3.3
<b>Jumlah / Total</b>	<b>20,140</b>	<b>100.0</b>	<b>22,410</b>	<b>100.0</b>	<b>22,266</b>	<b>100.0</b>	<b>26,033</b>	<b>100.0</b>	<b>27,339</b>	<b>100.0</b>

## JUMLAH PEMBELIAN PINJAMAN DAN HUTANG

### TOTAL LOANS AND DEBTS PURCHASES

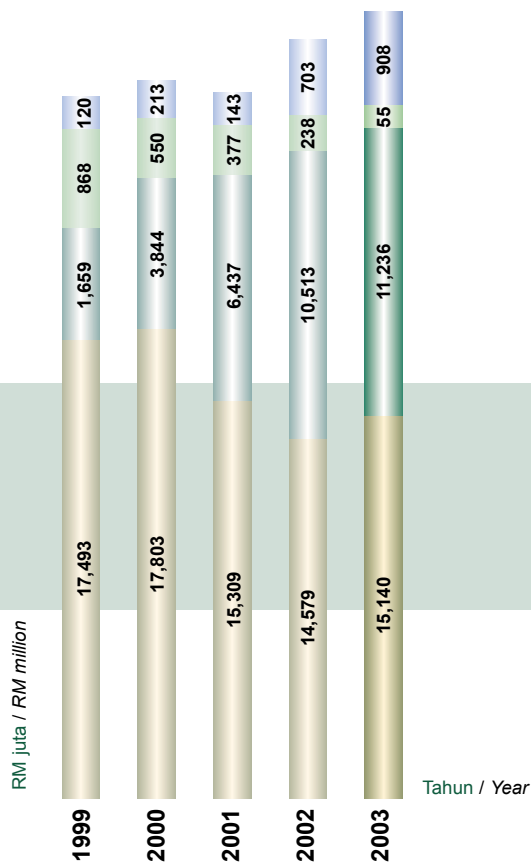
	1999		2000		2001		2002		2003	
	RM juta	%	RM juta	%	RM juta	%	RM juta	%	RM juta	%
	RM million		RM million		RM million		RM million		RM million	
<b>Jenis Pinjaman / Loan Type</b>										
Pinjaman Perumahan / Housing Loans										
– Konvensional / Conventional	4,880	72.6	7,591	69.6	3,349	45.8	3,975	36.2	6,916	62.2
– Secara Islam / Islamic	–	–	149	1.4	–	–	110	1.0	120	1.1
Hutang Sewa Beli dan Pemajakan										
Hire Purchase and Leasing Debts										
– Konvensional / Conventional	1,676	24.9	2,930	26.8	3,940	53.8	6,407	58.3	3,876	34.9
– Secara Islam / Islamic	–	–	–	–	–	–	500	4.5	200	1.8
Pinjaman Harta Perindustrian										
Industrial Property Loans	170	2.5	239	2.2	32	0.4	–	–	–	–
<b>Jumlah / Total</b>	<b>6,726</b>	<b>100.0</b>	<b>10,909</b>	<b>100.0</b>	<b>7,321</b>	<b>100.0</b>	<b>10,992</b>	<b>100.0</b>	<b>11,112</b>	<b>100.0</b>

### Penjual / Seller

Bank Perdagangan / Commercial Banks	2,811	41.8	4,969	45.5	3,125	42.7	2,729	24.8	6,738	60.6
Syarikat Kewangan / Finance Companies	2,664	39.6	5,515	50.5	4,066	55.5	7,353	66.9	3,959	35.6
Bank Saudagar / Merchant Banks	17	0.2	224	2.1	130	1.8	65	0.6	95	0.9
Kerajaan / Government	1,167	17.4	–	–	–	–	–	–	–	–
Perbadanan / Corporations	67	1.0	52	0.5	–	–	235	2.1	120	1.1
Institusi Perbankan Islam										
Islamic Banking Institutions	–	–	149	1.4	–	–	610	5.6	200	1.8
<b>Jumlah / Total</b>	<b>6,726</b>	<b>100.0</b>	<b>10,909</b>	<b>100.0</b>	<b>7,321</b>	<b>100.0</b>	<b>10,992</b>	<b>100.0</b>	<b>11,112</b>	<b>100.0</b>

### Jenis Opsyen / Option Type

Kadar Tetap / Fixed Rate	4,971	73.9	8,915	81.7	7,032	96.1	10,182	92.6	10,642	95.8
Kadar Terapung / Floating Rate	1,167	17.4	945	8.7	289	3.9	100	0.9	150	1.3
Kadar Boleh Tukar / Convertible Rate	588	8.7	900	8.2	–	–	100	0.9	–	–
Secara Islam / Islamic	–	–	149	1.4	–	–	610	5.6	320	2.9
<b>Jumlah / Total</b>	<b>6,726</b>	<b>100.0</b>	<b>10,909</b>	<b>100.0</b>	<b>7,321</b>	<b>100.0</b>	<b>10,992</b>	<b>100.0</b>	<b>11,112</b>	<b>100.0</b>

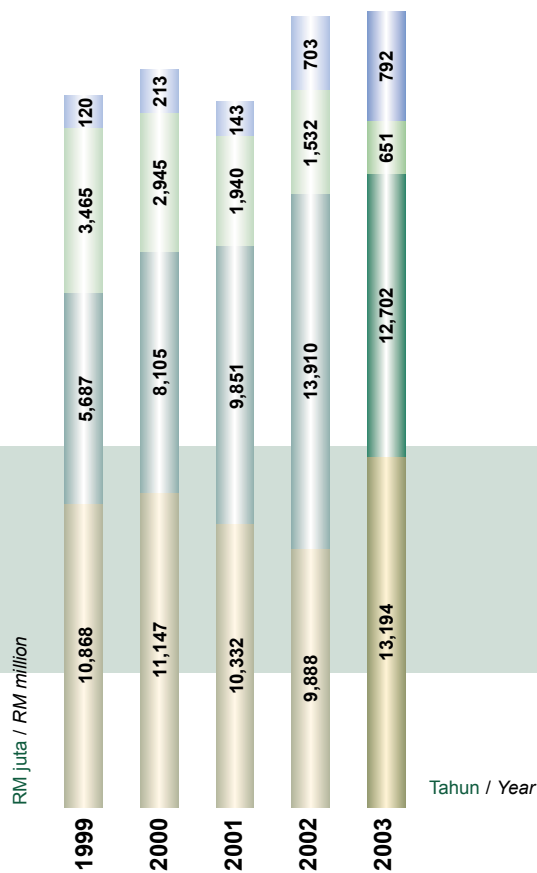


**PINJAMAN DAN HUTANG BELUM LUNAS  
DALAM PEGANGAN MENGIKUT JENIS PINJAMAN  
OUTSTANDING LOANS AND DEBTS HELD  
BY LOAN TYPE**

- Pinjaman Perumahan / Housing Loans
- Pinjaman Harta Perindustrian / Industrial Property Loans
- Hutang Sewa Beli dan Pemajakan / Hire Purchase and Leasing Debts
- Hutang Pembiayaan Secara Islam / Islamic Debts

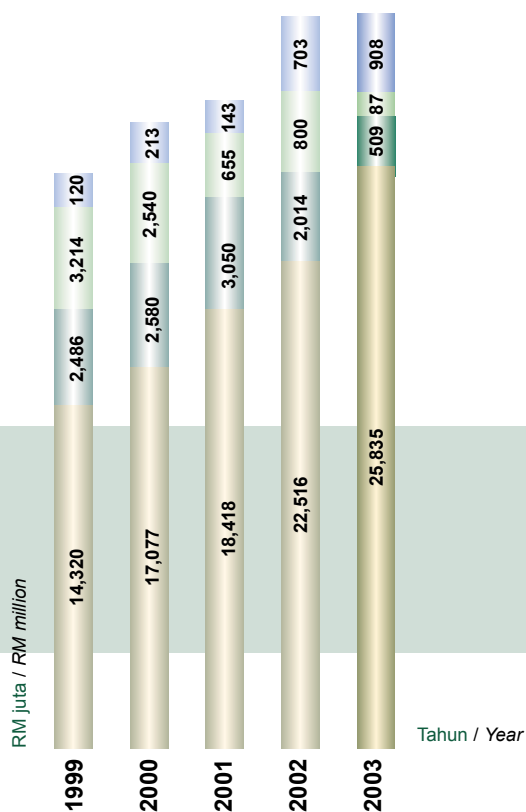
**PINJAMAN DAN HUTANG BELUM LUNAS  
DALAM PEGANGAN MENGIKUT PENJUAL  
OUTSTANDING LOANS AND DEBTS HELD  
BY SELLERS**

- Bank Perdagangan / Commercial Banks
- Syarikat Kewangan / Finance Companies
- Institusi Perbankan Islam / Islamic Banking Institutions
- Lain-lain / Others



**PINJAMAN DAN HUTANG BELUM LUNAS  
DALAM PEGANGAN MENGIKUT JENIS OPSYEN  
OUTSTANDING LOANS AND DEBTS HELD  
BY OPTION TYPE**

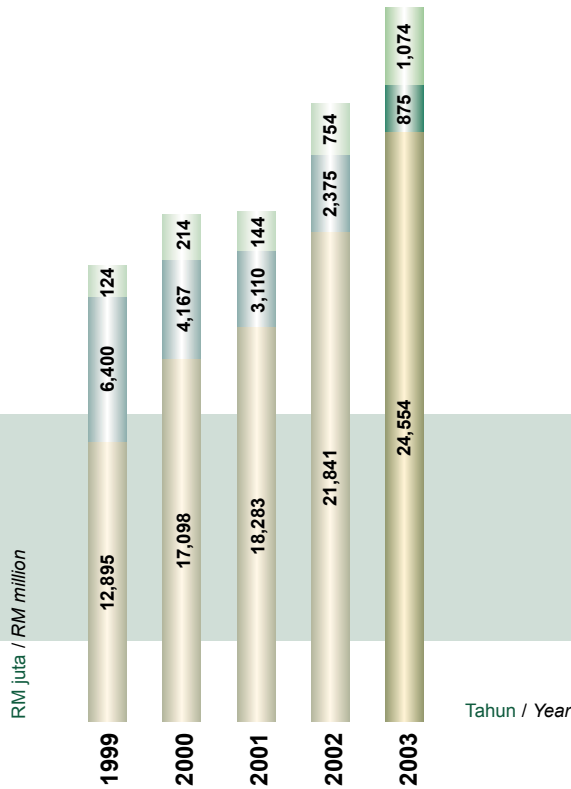
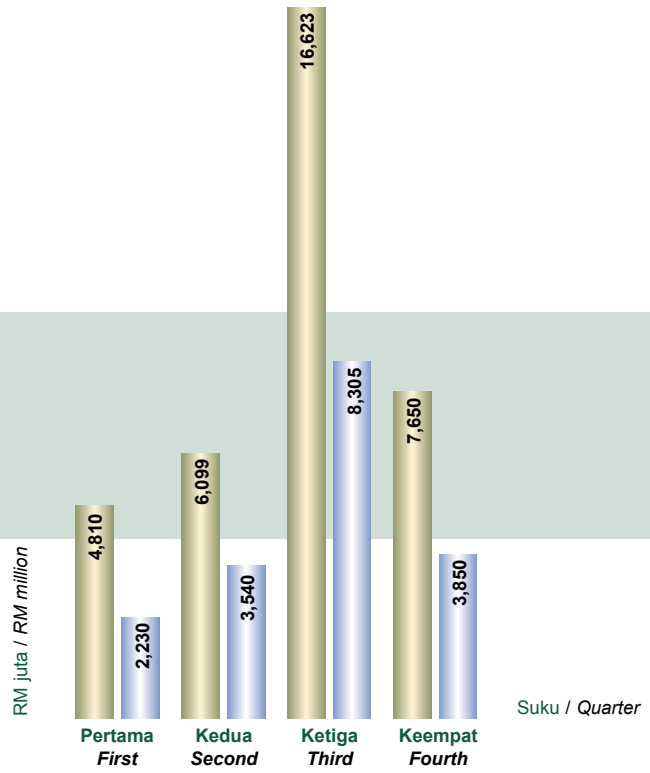
- Kadar Tetap / Fixed Rate
- Kadar Boleh Tukar / Convertible Rate
- Kadar Terapung / Floating Rate
- Secara Islam / Islamic







**SEKURITI HUTANG CAGAMAS YANG DIBIDA  
DAN DITERBIT DALAM TAHUN 2003**

**CAGAMAS DEBT SECURITIES BID  
AND ISSUED IN 2003**

 Amaun Dibida / Amount Bid  
 Amaun Diterbit / Amount Issued





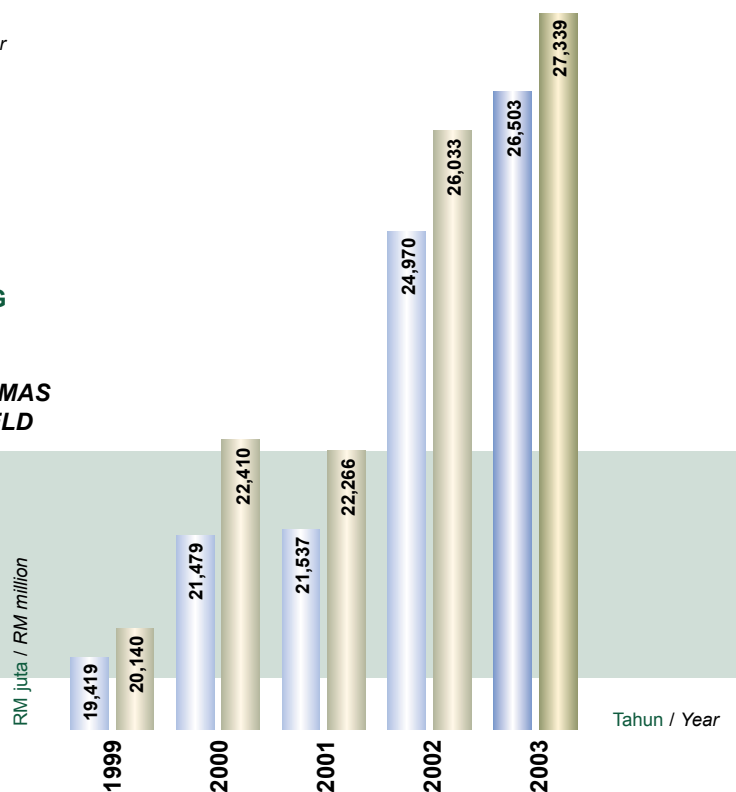
**SEKURITI HUTANG CAGAMAS  
BELUM TEBUS MENGIKUT JENIS  
OUTSTANDING CAGAMAS DEBT SECURITIES  
BY TYPE**

 Bon Berkadar Tetap / Fixed Rate Bonds  
 Sanadat Mudharabah Cagamas  
 Nota Diskaun / Discount Notes  
 Bon Berkadar Terapung / Floating Rate Bonds

**PERBANDINGAN DI ANTARA SEKURITI HUTANG  
CAGAMAS BELUM TEBUS DENGAN PINJAMAN  
DAN HUTANG DALAM PEGANGAN**

**COMPARISON BETWEEN OUTSTANDING CAGAMAS  
DEBT SECURITIES AND LOANS AND DEBTS HELD**

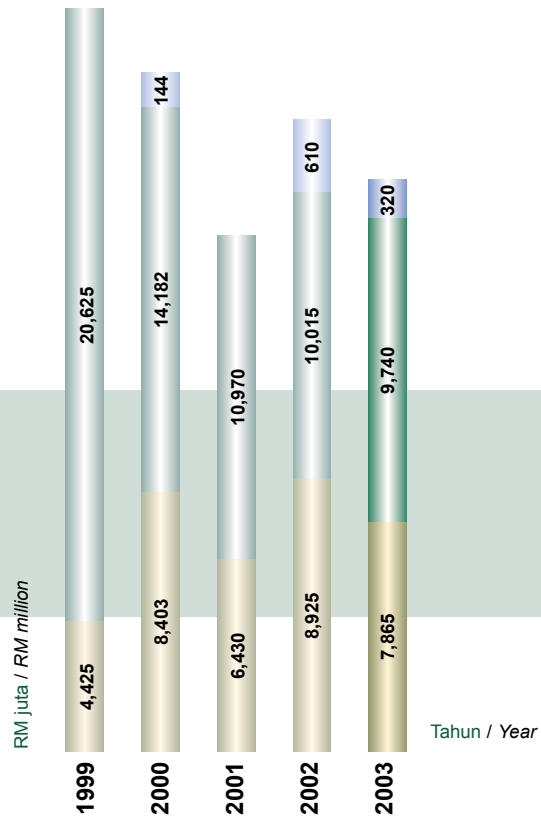
 Sekuriti Hutang / Debt Securities  
 Pinjaman dan Hutang / Loans and Debts



**SEKURITI HUTANG CAGAMAS BELUM TEBUS PADA 31 DISEMBER 2003**  
**CAGAMAS DEBT SECURITIES OUTSTANDING AS AT 31 DECEMBER 2003**

Tarikh Diterbitkan	Tempoh (Tahun)	Kadar Kupon (% setahun)	Tarikh Matang	Baki Tempoh (Tahun)	Bon Berkadar Tetap	Nota Cagamas	Sanadat Mudharabah Cagamas
Date Issued	Tenure (Years)	Coupon Rate (% per annum)	Maturity Date	Remaining Maturity (Years)	Fixed Rate Bonds	Cagamas Notes	
RM juta / RM million							
<b>1999</b>							
20.07.1999	5	6.054	20.07.2004	0.55	250		
<b>2000</b>							
03.08.2000	4	5.054	03.08.2004	0.59	837		
09.11.2000	4	–	09.11.2004	0.86			144
10.03.2000	5	5.449	10.03.2005	1.19	250		
03.08.2000	5	5.302	03.08.2005	1.59	850		
<b>2001</b>							
15.03.2001	3	3.515	15.03.2004	0.21	1,000		
19.04.2001	3	3.268	19.04.2004	0.30	750		
12.07.2001	3	3.448	12.07.2004	0.53	655		
20.09.2001	3	3.133	20.09.2004	0.72	780		
06.12.2001	3	3.136	06.12.2004	0.93	330		
15.03.2001	4	3.713	15.03.2005	1.21	500		
12.07.2001	4	3.690	12.07.2005	1.53	110		
15.03.2001	5	3.875	15.03.2006	2.21	842		
06.12.2001	5	3.311	06.12.2006	2.93	860		
25.05.2001	6	4.351	25.05.2007	3.40	130		
06.12.2001	10	3.912	06.12.2011	7.94	220		
<b>2002</b>							
20.02.2002	2	3.302	20.02.2004	0.14	1,000		
12.04.2002	2	3.232	12.04.2004	0.28	520		
07.05.2002	2	3.206	07.05.2004	0.35	900		
20.02.2002	3	3.544	18.02.2005	1.14	810		
12.04.2002	3	3.513	12.04.2005	1.28	615		
18.07.2002	3	3.132	18.07.2005	1.55	1,300		
21.03.2002	4	3.928	21.03.2006	2.22	560		
12.04.2002	4	3.862	12.04.2006	2.28	700		
07.05.2002	4	3.834	05.05.2006	2.35	865		
18.07.2002	4	3.254	18.07.2006	2.55	1,000		
21.11.2002	4	3.104	21.11.2006	2.89	875		
23.04.2002	5	–	23.04.2007	3.31			500
22.08.2002	5	–	22.08.2007	3.64			60
12.09.2002	5	3.253	12.09.2007	3.70	910		
26.02.2002	7	–	26.02.2009	5.16			50
<b>2003</b>							
18.11.2003	1	2.946	18.11.2004	0.88		875	
03.10.2003	2	3.188	03.10.2005	1.76	500		
27.02.2003	3	–	27.02.2006	2.16			50
27.03.2003	3	–	27.03.2006	2.24			150
11.07.2003	3	3.060	11.07.2006	2.53	410		
19.08.2003	3	3.655	18.08.2006	2.63	2,250		
16.10.2003	3	3.602	16.10.2006	2.79	1,125		
27.02.2003	5	3.122	27.02.2008	4.16	895		
11.04.2003	5	–	11.04.2008	4.28			120
10.06.2003	5	3.114	10.06.2008	4.45	955		
<b>Jumlah / Total</b>					<b>24,554</b>	<b>875</b>	<b>1,074</b>
					<b>26,503</b>		





**TERBITAN SEKURITI HUTANG CAGAMAS  
MENGIKUT JENIS**  
**ISSUANCE OF CAGAMAS DEBT SECURITIES  
BY TYPE**

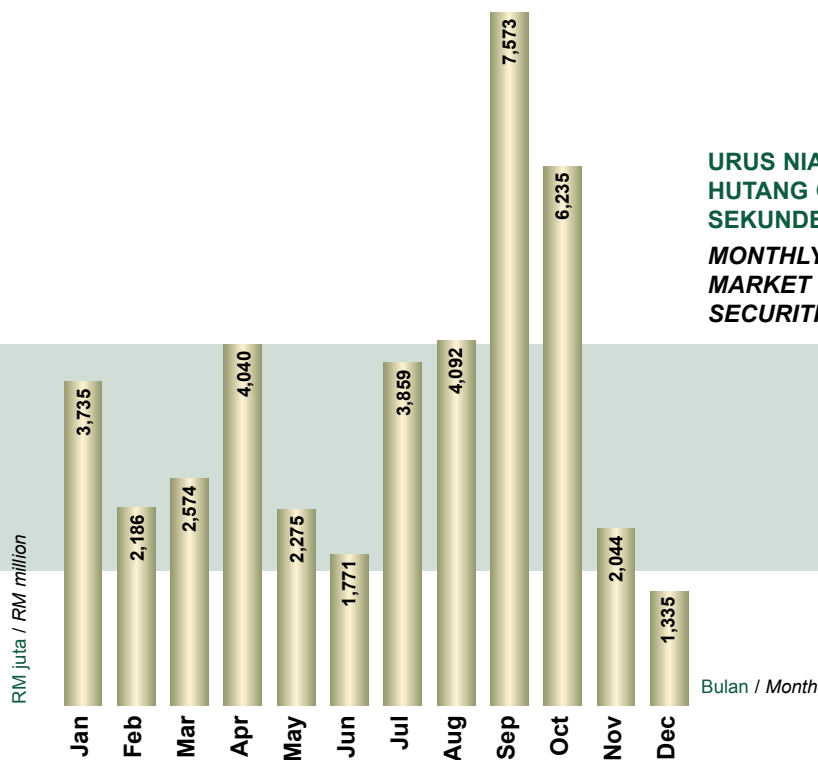
- Bon Berkadar Tetap / Fixed Rate Bonds
- Nota Cagamas / Cagamas Notes
- Sanadat Mudharabah Cagamas

**PEMEGANG SEKURITI HUTANG CAGAMAS**  
**HOLDERS OF CAGAMAS DEBT SECURITIES**

	1999		2000		2001		2002		2003	
	RM juta	%	RM juta	%	RM juta	%	RM juta	%	RM juta	%
	RM million		RM million		RM million		RM million		RM million	
Bank Perdagangan Commercial Banks	11,347	58.4	9,543	44.4	7,516	34.9	8,847	35.4	11,344	42.8
Syarikat Kewangan Finance Companies	1,543	8.0	1,872	8.7	1,312	6.1	906	3.6	742	2.8
Bank Saudagar Merchant Banks	782	4.0	679	3.2	928	4.3	1,341	5.4	1,217	4.6
Rumah Diskaun Discount Houses	479	2.5	1,311	6.1	1,072	5.0	1,603	6.4	2,345	8.8
	14,151	72.9	13,405	62.4	10,828	50.3	12,697	50.8	15,648	59.0
Syarikat Insurans Insurance Companies	2,895	14.9	2,953	13.7	2,596	12.1	2,172	8.7	2,442	9.2
Kumpulan Wang Pecen <sup>1</sup> Pension Funds <sup>1</sup>	1,746	9.0	4,394	20.5	5,457	25.3	8,902	35.7	7,700	29.1
Institusi Kewangan Lain Other Financial Institutions	48	0.2	275	1.3	1,167	5.4	874	3.5	552	2.1
Perbadanan Bukan Kewangan Non-financial Corporations	133	0.7	282	1.3	1,072	5.0	250	1.0	121	0.5
Syarikat Pemegang Amanah <sup>2</sup> Trust Companies <sup>2</sup>	6	–	10	–	10	–	20	0.1	–	–
Agensi Kerajaan Government Agencies	322	1.7	140	0.7	382	1.8	5	–	–	–
Syarikat Bukan Residen Non-resident Companies	118	0.6	20	0.1	20	0.1	50	0.2	40	0.1
Pelabur Perseorangan Individual Investors	–	–	–	–	5	–	–	–	–	–
	5,268	27.1	8,074	37.6	10,709	49.7	12,273	49.2	10,855	41.0
<b>Jumlah / Total</b>	<b>19,419</b>	<b>100.0</b>	<b>21,479</b>	<b>100.0</b>	<b>21,537</b>	<b>100.0</b>	<b>24,970</b>	<b>100.0</b>	<b>26,503</b>	<b>100.0</b>

<sup>1</sup> Termasuk PERKESO, Kumpulan Wang Simpanan dan Pecen.  
Including SOCSO, Pension and Provident Funds.

<sup>2</sup> Termasuk Amanah Saham dan Amanah Harta.  
Including Unit Trusts and Property Trusts.



**URUS NIAGA BULANAN SEKURITI HUTANG CAGAMAS DALAM PASARAN SEKUNDER DALAM TAHUN 2003**  
**MONTHLY VOLUME OF SECONDARY MARKET TRADING IN CAGAMAS DEBT SECURITIES IN 2003**

Sumber / Source: Bank Negara Malaysia

**URUS NIAGA DALAM PASARAN SEKUNDER BAGI SEKURITI TERPILIH**  
**SECONDARY MARKET TRADING VOLUME OF SELECTED SECURITIES**

Instrumen / Instruments	% Jumlah Pusing Ganti % of Total Turnover				
	1999	2000	2001	2002	2003
Sekuriti Kerajaan Malaysia Malaysian Government Securities	28.3	26.3	49.6	55.6	53.2
Sekuriti Hutang Cagamas Cagamas Debt Securities	17.4	24.2	9.1	9.7	9.6
Bil Perbendaharaan Treasury Bills	4.7	4.9	3.7	1.9	2.3
Instrumen Simpanan Boleh Niaga Negotiable Instruments of Deposits	14.2	7.2	8.9	8.7	9.9
Penerimaan Jurubank Bankers Acceptances	35.4	21.9	15.7	11.7	8.6
Bil Bank Negara Bank Negara Bills	–	15.5	13.0	12.4	16.4
<b>Jumlah / Total</b>	100.0	100.0	100.0	100.0	100.0

Sumber / Source: Bank Negara Malaysia

**URUS NIAGA SEKURITI HUTANG CAGAMAS DALAM PASARAN SEKUNDER**  
**SECONDARY MARKET TRADING IN CAGAMAS DEBT SECURITIES**

<b>Tempoh</b> <i>Period</i>	<b>Urus Niaga dalam Nilai Nominal</b> <i>Volume in Nominal Value</i> RM juta / RM million	<b>Bahagian Pusing Ganti Pasaran</b> <i>Share of Market Turnover</i> %
<b>1999</b>		
Suku Pertama / <i>First Quarter</i>	10,280	16.3
Suku Kedua / <i>Second Quarter</i>	9,597	15.9
Suku Ketiga / <i>Third Quarter</i>	5,759	17.2
Suku Keempat / <i>Fourth Quarter</i>	7,783	22.4
<b>Jumlah / Total</b>	<b>33,419</b>	<b>17.4</b>
<b>2000</b>		
Suku Pertama / <i>First Quarter</i>	20,073	34.4
Suku Kedua / <i>Second Quarter</i>	14,823	20.7
Suku Ketiga / <i>Third Quarter</i>	15,893	25.8
Suku Keempat / <i>Fourth Quarter</i>	19,390	19.7
<b>Jumlah / Total</b>	<b>70,179</b>	<b>24.2</b>
<b>2001</b>		
Suku Pertama / <i>First Quarter</i>	9,429	10.0
Suku Kedua / <i>Second Quarter</i>	7,085	7.4
Suku Ketiga / <i>Third Quarter</i>	13,484	11.5
Suku Keempat / <i>Fourth Quarter</i>	5,205	6.5
<b>Jumlah / Total</b>	<b>35,203</b>	<b>9.1</b>
<b>2002</b>		
Suku Pertama / <i>First Quarter</i>	10,156	10.7
Suku Kedua / <i>Second Quarter</i>	14,431	14.4
Suku Ketiga / <i>Third Quarter</i>	9,856	8.2
Suku Keempat / <i>Fourth Quarter</i>	8,421	6.8
<b>Jumlah / Total</b>	<b>42,864</b>	<b>9.7</b>
<b>2003</b>		
Suku Pertama / <i>First Quarter</i>	8,495	6.7
Suku Kedua / <i>Second Quarter</i>	8,086	6.3
Suku Ketiga / <i>Third Quarter</i>	15,524	15.8
Suku Keempat / <i>Fourth Quarter</i>	9,614	11.9
<b>Jumlah / Total</b>	<b>41,719</b>	<b>9.6</b>

Sumber / Source: Bank Negara Malaysia