financial statements

The Directors have pleasure in submitting their report and the audited financial statements of the Group and Company for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company consist of purchases of mortgage loans and hire purchase and leasing debts from primary lenders approved by the Company and the issue of bonds and notes to finance the purchases. The Company also purchases Islamic house financing debts and Islamic hire purchase debts and issues bonds under Islamic principles.

In addition, the Company provides administrative services to its subsidiaries. The principal activities of the subsidiaries are set out in Note 34 to the financial statements. There was no significant change in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit for the financial year	270,899	93,270

DIVIDENDS

The dividends paid by the Company since 31 December 2005 were as follows:

	RM'000
In respect of the year ended 31 December 2005, as shown in the Directors' report of that financial year,	
a final gross dividend of 10 sen per share on 150,000,000 ordinary shares, less income tax of 28%, paid on 9 May 2006	10,800
In respect of the year ended 31 December 2006,	
an interim gross dividend of 5 sen per share on 150,000,000 ordinary shares, less income tax of 28%, paid on 12 October 2006	5,400
	16,200

The Directors now recommend the payment of a final dividend of 10 sen per share, less income tax of 27%, on 150,000,000 ordinary shares amounting to RM10,950,000 for the financial year ended 31 December 2006 which, subject to approval of members at the forthcoming Annual General Meeting of the Company, to be paid on 21 May 2007 to shareholders registered on the Company's Register of Members as at the close of business on 26 April 2007.

RESERVES AND PROVISIONS

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

INCORPORATION OF SUBSIDIARY

BNM Sukuk Berhad ("BNM Sukuk"), a wholly-owned subsidiary of Cagamas Berhad was incorporated on 18 January 2006 with authorised and paid up capital of RM2.

Cagamas SME Berhad ("CSME"), a wholly-owned subsidiary of Cagamas Berhad was incorporated on 17 February 2006 with authorised and paid up capital of RM2.

However, both of these companies have not been consolidated for the reasons set out in Note 34 to the financial statements.

RATING PROFILE OF THE BONDS

Rating Agency Malaysia Berhad assigned a rating of AAA to the bonds issued by the Group and Company. Malaysian Rating Corporation Berhad has assigned a rating of AAA and AAA_{IS} to the same bonds issued by the Group and Company.

RELATED-PARTY TRANSACTIONS

Most of the transactions involving mortgage loans, hire purchase and leasing debts, Islamic house financing debts and Islamic hire purchase debts as well as issuance of unsecured debt securities are done at arm's length with various financial institutions including that of significant shareholders of the Group and Company.

DIRECTORS

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

Dato' Ooi Sang Kuang (Chairman)	
Dato' Sri Tay Ah Lek	
Datuk Amirsham A. Aziz	
Dato' Mohd Razif Abdul Kadir	
Dato' Albert Yeoh Beow Tit	
Yvonne Chia	
YM Tunku Afwida Tunku A.Malek	
Tang Wing Chew	(Appointed on 03.01.2006)
Cheah Tek Kuang	(Appointed on 29.04.2006)
George Ratilal	(Appointed on 29.04.2006)
Dato' Sri Abdul Hamidy Abdul Hafiz	(Appointed on 18.1.2007)
Tan Sri Dato' Azman Hashim	(Resigned on 29.04.2006)
Tan Sri Dato' Tan Teong Hean	(Resigned on 29.04.2006)
Mohamed Azmi Mahmood	(Resigned on 29.04.2006)
Dato' Zarir Jal Cama	(Resigned on 29.04.2006)
Abdul Karim Md Lassim	(Resigned on 29.04.2006)
Shayne Keith Nelson	(Resigned on 02.11.2006)

In accordance with the Company's Articles of Association, the following Directors retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election:

Dato' Sri Tay Ah Lek
Datuk Amirsham A.Aziz
Yvonne Chia

In accordance with the Company's Article of Association, the following Directors, who vacates office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election:

Cheah Tek Kuang
George Ratilal
Dato' Sri Abdul Hamidy Abdul Hafiz

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration disclosed in Note 29 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

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

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statement and balance sheet were made out, the Directors took reasonable steps:

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

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

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

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

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

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

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

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

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

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

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

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONT'D)

In the opinion of the Directors,

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

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

AUDITORS

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

In accordance with a resolution of the Board of Directors dated 30 March 2007.

DATO' OOI SANG KUANG
CHAIRMAN

DATO' SRI TAY AH LEK
DIRECTOR

balance sheets

as at 31 December 2006

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
ASSETS					
Cash and short-term funds	5	1,526,412	1,790,591	1,236,668	1,397,068
Deposits and placements with financial institutions	6	682,100	–	200,000	–
Derivative financial instruments	37	10,286	–	10,286	–
Available-for-sale investment securities	7	490,444	642,205	395,980	642,205
Amounts due from counter parties	8	15,888,544	21,177,837	15,888,544	21,177,837
Mortgage assets	9	3,120,441	3,348,266	–	–
Islamic mortgage assets	10	2,050,388	2,080,171	–	–
Islamic financing debts	11	5,255,649	2,682,146	5,255,649	2,682,146
Tax recoverable		3,002	936	3,002	936
Other assets	12	281,591	299,993	37,846	42,598
Investment in subsidiary companies	34	–	–	– *	– **
Property and equipment	13	1,966	1,602	1,966	1,602
Intangible assets	14	15,804	13,957	15,804	13,957
Amount due from a subsidiary		–	–	693	794
TOTAL ASSETS		29,326,627	32,037,704	23,046,438	25,959,143
LIABILITIES					
Unsecured bearer bonds and notes	15	15,228,769	20,904,500	15,228,769	20,904,500
Islamic bonds	16	6,200,679	3,455,036	6,200,679	3,455,036
Derivative financial instruments	37	8,889	2,746	8,889	2,746
Residential mortgage-backed securities	17	3,615,000	3,615,000	–	–
Islamic residential mortgage-backed securities	18	2,050,000	2,050,000	–	–
Deferred taxation	19	136,589	81,050	24,077	16,642
Other liabilities	20	186,261	274,196	151,092	214,931
TOTAL LIABILITIES		27,426,187	30,382,528	21,613,506	24,593,855
SHARE CAPITAL	21	150,000	150,000	150,000	150,000
RESERVES	22	1,750,440	1,505,176	1,282,932	1,215,288
SHAREHOLDERS' FUNDS		1,900,440	1,655,176	1,432,932	1,365,288
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		29,326,627	32,037,704	23,046,438	25,959,143
NET TANGIBLE ASSETS PER SHARE (RM)	31	12.56	10.94	9.45	9.01

* Investment in subsidiary companies of RM6
** Investment in subsidiary companies of RM2

The notes on pages 154 to 204 form an intergal part of these financial statements

income statements

for the financial year ended 31 December 2006

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
INTEREST INCOME	23	1,137,024	1,229,365	834,068	959,033
INCOME FROM ISLAMIC ASSETS	24	206,046	158,529	–	–
INTEREST EXPENSE	25	(891,909)	(889,370)	(717,274)	(814,483)
PROFIT ATTRIBUTABLE TO ISLAMIC BONDHOLDERS	26	(93,683)	(37,217)	–	–
ISLAMIC OPERATIONS INCOME	43	14,719	5,844	14,719	5,844
NON-INTEREST INCOME	27	17,600	11,355	17,600	14,652
NET INCOME		389,797	478,506	149,113	165,046
ADMINISTRATION AND GENERAL EXPENSES		(16,616)	(15,911)	(10,578)	(9,104)
PERSONNEL COST		(9,596)	(5,830)	(9,596)	(5,830)
PROFIT BEFORE TAXATION AND ZAKAT	28	363,585	456,765	128,939	150,112
TAXATION	30	(91,483)	(127,761)	(34,466)	(41,938)
ZAKAT	43(j)	(1,203)	(1,164)	(1,203)	(1,164)
NET PROFIT FOR THE FINANCIAL YEAR		270,899 *	327,840 *	93,270	107,010
EARNINGS PER SHARE (SEN)	31	180.6	218.6	62.2	71.3
DIVIDEND PER SHARE (SEN)	32	15	15	15	15

* As set out in Note 44 to the financial statements, net profit for the year includes profit for Cagamas MBS Berhad ("CMBS") of RM177,629,000 (2005: RM220,830,000) that may be subject to a discretionary bonus fee to the Government of Malaysia ("GOM") after full settlement of the Residential Mortgage-Backed Securities/Islamic Residential Mortgage-Backed Securities ("RMBS/IRMBS").

The notes on pages 154 to 204 form an intergal part of these financial statements

statement of changes in equity

for the financial year ended 31 December 2006

	Note	Issued and fully paid ordinary shares of RM1 each Share Capital RM'000	Non-Distributable Fair Value Reserve RM'000	Distributable Retained Profit RM'000	 Other Reserve RM'000	Total RM'000
Group						
At 31 December 2005:						
– as previously reported		150,000	–	1,197,332	289,888	1,637,220
– change in accounting policy		–	20,702	(2,746)	–	17,956
– as restated		150,000	20,702	1,194,586	289,888	1,655,176
Revaluation of available-for-sale investment securities (net)		–	(5,476)	–	–	(5,476)
Deferred tax on revaluation of available-for-sale investment		–	(3,959)	–	–	(3,959)
Income and expenses recognised directly in equity		–	(9,435)	–	–	(9,435)
Net profit for the financial year		–	–	270,899	–	270,899
Total recognised income and expenses for the financial year		–	(9,435)	270,899	–	261,464
Transfer to other reserve		–	–	(177,629)	177,629	–
Dividends in respect of financial year ended 31 December 2005		–	–	(10,800)	–	(10,800)
Dividends in respect of financial year ended 31 December 2006		–	–	(5,400)	–	(5,400)
Balance as at 31 December 2006	21 & 22	150,000	11,267	1,271,656	467,517 *	1,900,440

* As set out in Note 44 to the financial statements, Other Reserve relates to retained earnings of CMBS that may be subject to a discretionary bonus fee to the GOM after the full settlement of the RMBS/IRMBS

The notes on pages 154 to 204 form an intergal part of these financial statements

	Note	Issued and fully paid ordinary shares of RM1 each Share Capital RM'000	Non-Distributable Fair Value Reserve RM'000	Distributable Retained Profit RM'000	Distributable Other Reserve RM'000	Total RM'000
Group						
Balance as at 1 January 2005:		150,000	–	1,106,522	69,058	1,325,580
Net profit for the financial year		–	–	327,840	–	327,840
Total recognised income and expenses for the financial year		–	–	327,840	–	327,840
Transfer to other reserve		–	–	(220,830)	220,830	–
Dividends in respect of financial year ended 31 December 2004		–	–	(10,800)	–	(10,800)
Dividend in respect of financial year ended 31 December 2005		–	–	(5,400)	–	(5,400)
Balance as at 31 December 2005:						
As previously stated		150,000	–	1,197,332	289,888	1,637,220
Effects of adopting FRS 139		–	20,702	(2,746)	–	17,956
As restated	21 & 22	150,000	20,702	1,194,586	289,888 *	1,655,176

* As set out in Note 44 to the financial statements, Other Reserve relates to retained earnings of CMBS that may be subject to a discretionary bonus fee to the GOM after the full settlement of the RMBS/IRMBS.

The notes on pages 154 to 204 form an intergal part of these financial statements

for the financial year ended 31 December 2006 (cont'd)

	Note	Issued and fully paid ordinary shares of RM1 each Share Capital RM'000	Non-Distributable Fair Value Reserve RM'000	Distributable Retained Profit RM'000	Total RM'000
Company					
At 31 December 2005:					
– as previously reported		150,000	–	1,197,332	1,347,332
– change in accounting policy		–	20,702	(2,746)	17,956
– as restated		150,000	20,702	1,194,586	1,365,288
Revaluation of available-for-sale Investment securities (net)		–	(5,463)	–	(5,463)
Deferred tax on revaluation of available-for-sale investment		–	(3,963)	–	(3,963)
Income and expenses recognised directly in equity		–	(9,426)	–	(9,426)
Net profit for the financial year		–	–	93,270	93,270
Total recognised income and expenses for the financial year		–	(9,426)	93,270	83,844
Dividends in respect of financial year ended 31 December 2005		–	–	(10,800)	(10,800)
Dividends in respect of financial year ended 31 December 2006		–	–	(5,400)	(5,400)
Balance as at 31 December 2006	21 & 22	150,000	11,276	1,271,656	1,432,932

The notes on pages 154 to 204 form an intergal part of these financial statements

for the financial year ended 31 December 2006 (cont'd)

	Note	Issued and fully paid ordinary shares of RM1 each Share Capital RM'000	Non-Distributable Fair Value Reserve RM'000	Distributable Retained Profit RM'000	Total RM'000
Company					
Balance as at 1 January 2005:		150,000	–	1,106,522	1,256,522
Net profit for the financial year		–	–	107,010	107,010
Total recognised income and expenses for the financial year		–	–	107,010	107,010
Dividends in respect of financial year ended 31 December 2004		–	–	(10,800)	(10,800)
Dividends in respect of financial year ended 31 December 2005		–	–	(5,400)	(5,400)
Balance as at 31 December 2005:					
As previously stated		150,000	–	1,197,332	1,347,332
Effects of adopting FRS 139		–	20,702	(2,746)	17,956
As restated	21 & 22	150,000	20,702	1,194,586	1,365,288

The notes on pages 154 to 204 form an intergal part of these financial statements

cash flow statements

for the financial year ended 31 December 2006

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
OPERATING ACTIVITIES					
Net profit for the financial year		270,899	327,840	93,270	107,010
Adjustments for investment items and items not involving the movement of cash and cash equivalents:					
Amortisation of premium less accretion of discount on available-for-sale investment securities		(364)	821	483	821
Amortisation of premium less accretion of discount on Islamic debt securities		2,024	2,751	2,024	2,751
Accretion of discount on mortgage assets		(109,583)	(107,741)	–	–
Accretion of discount on Islamic mortgage assets		(92,257)	(73,242)	–	–
Income from Islamic debt securities		(12,099)	(11,311)	(12,099)	(11,311)
Interest income		(1,027,078)	(1,122,445)	(834,551)	(959,854)
Income from Islamic assets		(113,789)	(85,287)	–	–
Other non-operating income		(957)	(3,341)	(957)	(3,341)
Interest expense		891,910	889,370	717,274	814,483
Profit attributable to Islamic bondholders		93,683	37,217	–	–
Depreciation of property and equipment		527	1,739	527	1,739
Amortisation of intangible assets		2,070	–	2,070	–
Gain on disposal of property and equipment		(36)	–	(36)	–
Gain on disposal of available-for-sale investment		(369)	–	(369)	–
Unrealised gain on revaluation of interest rate swap		(4,143)	–	(4,143)	–
Intangible asset written off		128	–	128	–
Taxation		91,483	127,761	34,466	41,938
Zakat		1,203	1,164	1,203	1,164
Operating loss before working capital changes		(6,749)	(14,704)	(710)	(4,600)
Decrease in amounts due from counter parties		5,289,293	4,119,300	5,289,293	4,119,300
Increase in Islamic financing debts		(2,573,503)	(470,919)	(2,573,503)	(470,919)
Decrease/(Increase) in mortgage assets		337,408	(1,715,771)	–	–
Decrease/(Increase) in Islamic mortgage assets		122,041	(2,006,930)	–	–
Increase in other assets		(370)	(77,308)	(9,749)	(1,778)
Decrease in unsecured bearer bonds and notes		(5,675,731)	(3,284,495)	(5,675,731)	(3,284,495)
Increase in Islamic bonds		2,745,643	906,678	2,745,643	906,678
Increase in residential mortgage-backed securities		–	2,060,000	–	–
Increase in Islamic residential mortgage-backed securities		–	2,050,000	–	–
Increase/(Decrease) in other liabilities		8,411	(1,839)	8,414	(1,818)
Cash generated from/(utulised in) operating activities		246,443	1,564,012	(216,343)	1,262,368

The notes on pages 154 to 204 form an intergal part of these financial statements

cash flow statements

for the financial year ended 31 December 2006 (cont'd)

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Interest received		1,038,706	1,047,287	843,864	966,759
Income received from Islamic assets		115,642	28,567	–	–
Interest paid		(958,055)	(942,407)	(783,419)	(872,997)
Profit attributed to Islamic bondholders		(93,683)	(23,613)	–	–
Payment of zakat		(1,163)	(440)	(1,163)	(440)
Payment of taxation		(66,060)	(61,990)	(33,060)	(40,176)
Net cash generated from/(utilised in) operating activities		281,831	1,611,416	(190,121)	1,315,514
INVESTING ACTIVITIES					
Purchase of:					
Investments		(188,631)	(251,407)	(95,000)	(251,407)
Property and equipment		(960)	(957)	(960)	(957)
Intangible Assets		(3,917)	–	(3,917)	–
Income received from Islamic debt securities		4,282	5,588	4,282	5,588
Proceeds received from disposal of property and equipment		100	–	100	–
Proceeds from sale of available-for-sale securities		200,646	–	200,646	–
Redemption of investments		145,077	69,922	145,077	69,922
Redemption of interest rate swap		(4,307)	–	(4,307)	–
Net cash generated from/(utilised in) investing activities		152,290	(176,854)	245,921	(176,854)
FINANCING ACTIVITIES					
Payment of dividends		(16,200)	(16,200)	(16,200)	(16,200)
Net cash utilised in financing activities		(16,200)	(16,200)	(16,200)	(16,200)
Net increase in cash and cash equivalents		417,921	1,418,362	39,600	1,122,460
Cash and cash equivalents as at beginning of the financial year		1,790,591	372,229	1,397,068	274,608
Cash and cash equivalents as at end of the financial year		2,208,512	1,790,591	1,436,668	1,397,068
Analysis of cash and cash equivalents:					
Cash and short-term funds	5	1,526,412	1,790,591	1,236,668	1,397,068
Deposits and placements with financial institutions	6	682,100	–	200,000	–
		2,208,512	1,790,591	1,436,668	1,397,068

The notes on pages 154 to 204 form an intergal part of these financial statements

1 GENERAL INFORMATION

The principal activities of the Company consist of the purchases of mortgage loans and hire purchase and leasing debts from primary lenders approved by the Company and the issue of bonds and notes to finance the purchases. The Company also purchases Islamic house financing debts and Islamic hire purchase debts and issues bonds under Islamic principles.

In addition, the Company provides administrative services to its subsidiaries. The principal activities of the subsidiaries are set out in Note 34 to the financial statements. There was no significant change in the nature of these activities during the financial year.

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

The address of the registered office and principal place of business of the Company is 19th Floor, West Wing, Menara Maybank, 100, Jalan Tun Perak, 50050 Kuala Lumpur.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items which are considered material in relation to financial statements.

(a) Basis of preparation

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

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

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

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965, FRS, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires directors to exercise their judgement in the process of applying the company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

Critical accounting estimates and assumptions that are significant to the financial statements and areas involving a higher degree of judgement and complexity are disclosed in Note 3: Critical accounting estimates and assumptions.

During the financial year, the Group and the Company have adopted the following new and revised FRS and IC Interpretations issued by MASB that are effective for the financial statements commencing 1 January 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

The following are the new and revised FRS and IC Interpretations that are relevant to the Group and Company:

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After the Balance Sheet Date
FRS 112	Income Taxes
FRS 116	Property, Plant and Equipment
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
IC Interpretation 112	Consolidation – Special Purpose Entities

All changes in accounting policies have been made in accordance with the transition provisions of the respective standards, amendments of published standards and interpretations.

The Group and Company has decided to adopt the following new FRSs to provide its stakeholders more transparent and credible information.

FRS 117	Leases
FRS 124	Related Party Disclosures
FRS 139	Financial Instruments: Recognition and Measurement
MASB TR i-1	Accounting for Zakat on Business

The early adoption of FRS 139 has resulted in a change in accounting policy for the following financial instruments and is further explained in the respective accounting policy notes below:

- Available-for-sale investment securities – Refer 2(e); and
- Derivative financial instruments – Refer 2(o)

FRS 139 was applied prospectively from 1 January 2006 in the preparation of the financial statements as retrospective application of the standard is prohibited for first-time adoption. As a result, investment securities in the previous year were reclassified to available-for-sale investment securities to conform with the new classification and presentation.

The impact of adopting FRS 139 is disclosed in Note 45(a) and (c) to the financial statements.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary company made up to the end of the financial year, with the exception of BNM Sukuk and CSME. Further details are disclosed in Note 34 to the financial statements.

Subsidiaries are all entities (including special purpose entities) ("SPE") over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated using the purchase method of accounting, consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Basis of consolidation (cont'd)

Inter-company transactions, balances and unrealised gains on transactions are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiary to ensure consistency of accounting policies with those of the Group.

(c) Amounts due from counter parties

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

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

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

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

(d) Mortgage assets and Islamic mortgage assets

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

As at the balance sheet date, mortgage assets and Islamic mortgage assets acquired are stated at their unpaid principal balances due to the subsidiary, adjusted for unaccreted discount. Interest income/income on mortgage assets and Islamic mortgage assets are recognised on an accrual basis and computed at the respective interest/profit rates based on monthly rest.

The discount arising from the difference between the purchase price and book value of the mortgage assets and Islamic mortgage assets acquired is accreted to the income statement over the term of the mortgage assets and Islamic mortgage assets.

(e) Available-for-sale("AFS") investments securities

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Available-for-sale("AFS") investments securities (cont'd)

The realised gains or losses on derecognition of AFS securities, which are derived based on the difference between the proceeds received and the carrying value of the securities plus any cumulative unrealised gains and losses arising from changes in fair value previously recognised in equity, are credited or charged to the current period's income statement.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

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

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

The impact of adopting FRS 139 is disclosed in Note 45 (a) and (c) to the financial statements.

(f) Investment in subsidiary companies

A subsidiary is a company in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of voting rights.

Investment in the subsidiary companies is shown at cost less any impairment losses, if any. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

(g) Property and equipment

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

Depreciation is calculated on a straight line basis to write off the cost of the assets over their estimated useful lives. The principal annual rates of depreciation used are as follows:

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

Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2 (h) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit/(loss) from operations. On disposal of revalued assets, amounts in revaluation reserve relating to those assets are transferred to retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Impairment of assets

(i) Financial assets

The Company assesses at each balance sheet date whether there is objective evidence that an asset is impaired. An asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

(ii) Non-financial assets

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

(i) Income recognition

Interest income and income on Islamic assets are recognised on an accrual basis. As for Islamic operations, income is accounted for on an accrual basis of accounting. Accretion of discounts is recognised on an effective yield basis.

(j) Premium and discount on unsecured bearer bonds

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

(k) Income taxes

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and balances with banks and other financial institutions and short-term investments in money market instruments and are readily convertible into cash without significant risk of changes in value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Offsetting financial instruments

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

(n) Segment Reporting

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

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

(o) Derivative financial instruments

Interest rate swap ("IRS") are used as hedging tools to support issuance of fixed rate bonds to fund floating rate purchases of mortgage loans. In addition, IRS are also used by the Company to economically hedge the issuance of its debt securities. Further details of the IRS are disclosed in Note 37.

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

Periodic net payments made or received on the IRS are recognised as realised loss or gain within non-interest income. Losses and gaining on early termination of IRS are taken to the income statement.

The impact of adopting FRS 139 is disclosed in Note 45(a) and (c) to the financial statements.

(p) Provisions

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

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

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

(q) Zakat

Zakat are tithes payable by the Group and Company in respect of its Islamic operations in compliance with the Syariah principles. Zakat represents business zakat payable by the Group and Company to comply with the Syariah principles and as approved by the Syariah Supervisory Council. The zakat obligation arises from the Company's Islamic business, and the Company does not pay zakat on behalf of its bondholders and shareholders. Zakat provision is calculated based on 2.5% of the Adjusted Capital Growth method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Employee benefits

(i) Short-term employee benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the financial year in which the associated services are rendered by the employees of the Group and Company.

(ii) Defined contribution plans

The Group and the Company contribute to the Employees' Provident Fund ('EPF'), the national defined contribution plan. The contributions to EPF are charged to the income statement in the year to which they relate. Once the contributions have been paid, the Group and the Company has no further payment obligations in the future.

(s) Intangible assets

(i) Computer software

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

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

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

The adoption of FRS 138 has resulted in a change in the accounting policy for computer software which is not an integral part of computer hardware which was previously included in property, plant and equipment. In accordance with FRS 138, computer software which is not an integral part of computer hardware is classified as intangible asset.

The impact of this standard on the consolidated financial statements are as disclosed in Note 45 (b) and (c) to the financial statements.

(ii) Service rights to transaction administration and administrator fees

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

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

Service rights are tested annually for any indication of impairment and carried at cost less accumulated impairment losses. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) RMBS and IRMBS

RMBS and IRMBS were issued to fund the purchases of mortgage assets from the GOM. As at balance sheet date, RMBS and IRMBS are stated at their nominal values.

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

(u) Share Capital

(i) Classification

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

(ii) Dividends to shareholders of the Company

Dividends on ordinary shares are recognised as liabilities in the period in which the dividends are declared.

(v) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on the straight line basis over the lease period.

(w) Reporting Currency

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

(x) Financial Instruments

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

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

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

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

(i) Financial instruments recognised on the balance sheet

The Group and Company do not issue any compound financial instruments. The particular recognition method adopted for the financial instruments recognised in the balance sheet is disclosed in the individual accounting policy statements associated with each item.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(x) Financial Instruments (cont'd)

(ii) Financial instruments not recognised on the balance sheet

The Group and Company is a party to financial instruments that comprise IRS agreements. These instruments are not recognised in the financial statements on inception. Any differential to be paid or received on an IRS contract is recognised as a component of non-operating income over the period of the contract. Gains or losses on early termination of IRS or on repayment of the borrowing are taken to the income statement.

(iii) Fair value estimation for disclosure purpose

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

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

The face value of financial assets (less any estimated credit adjustments) and financial liabilities with a maturity period of less than one year are assumed to approximate their fair values.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

(a) Fair value of financial instruments

(i) Derivatives and AFS investment securities

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

(ii) Mortgage assets and Islamic Mortgage assets

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONT'D)

(b) Impairment

(i) AFS investment securities

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

(ii) Intangibles

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

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

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

(c) Securitisations and special purpose entities

The Company incorporates SPEs primarily for the purpose of asset securitisation transactions. The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group controls an SPE, it makes judgments about its exposure to the risks and rewards, as well as about its ability to make financial and operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach clear conclusion. When assessing whether the Group has to consolidate an SPE, the Group evaluates a range of factors, including whether (a) the Group will obtain the majority of the benefits of the activities of an SPE, (b) the Group retains the majority of the residual ownership risks related to the assets in order to obtain the benefits from its activities, (c) the Group has decision-making powers to obtain the majority of the benefits, or (d) the activities of the SPE being conducted on behalf of the Group according to the Group's specific business needs so that the Group obtains the benefits from the SPE's operations. The Group consolidates an SPE if the assessment of the relevant factors indicates that the Group obtains the majority of the benefits or risks of its activities.

(d) Discretionary bonus fee

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

4 RISK MANAGEMENT OBJECTIVE AND POLICIES

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

During the year, the Company streamlined its credit limits management policy, standardised the setting of limits by risk rating and capped its credit exposure to counterparties on a group basis.

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

4 RISK MANAGEMENT OBJECTIVE AND POLICIES (CONT'D)

Risk Management Structure

The Board of Directors has the ultimate responsibility for management of risks associated with the Company's operations and activities. The Board of Directors sets the risk appetite and tolerance level that are consistent with the Company's overall business objectives and desired risk profile. The Board of Directors also reviews and approves all significant risk management policies and risk exposures.

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

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

The Chief Risk Officer reports independently to the Board Risk Committee and assists the Board Risk Committee in the development of strategies and policies as well as ensuring that the infrastructure, resources and systems are in place for effective risk management.

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

Risks faced by the Company

The Company's operations can be segregated into purchase with recourse and purchase without recourse business.

Purchase With Recourse

For the purchase with recourse business, the Company faces the following risks:

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

(a) Credit Risk

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

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

(b) Market Risk

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

4 RISK MANAGEMENT OBJECTIVE AND POLICIES (CONT'D)

(b) Market Risk (cont'd)

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

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

(c) Liquidity Risk

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

The Company mitigates its liquidity risk by matching the timing of purchases of loans and debts with issuance of debt securities. The Company plans its cash flow and monitors closely every business transaction to ensure that available funds are sufficient to meet business requirements at all times. In addition, the Company sets aside considerable reserve liquidity to meet any unexpected shortfall in cash flow or adverse economic conditions in the financial market.

(d) Operational Risk

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

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

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

Purchase Without Recourse

The rights of the bondholders are limited to the specific asset pool and there is no recourse to the other asset pools, or to the Company's wholly owned subsidiary, CMBS or the Company.

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

5 CASH AND SHORT-TERM FUNDS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash and balances with banks and other financial institutions	137	441	98	378
Money at call and deposits placements maturing within one month	942,705	1,167,400	653,000	808,810
Mudharabah money at call and deposits placements maturing within one month	583,570	622,750	583,570	587,880
	1,526,412	1,790,591	1,236,668	1,397,068

6 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed bank	682,100	–	200,000	–

7 AVAILABLE-FOR-SALE INVESTMENT SECURITIES

At fair value:

Malaysian Government securities	–	230,497	–	230,497
Khazanah bonds	201,014	193,989	201,014	193,989
Private debt securities	104,471	15,399	10,007	15,399
Islamic debt securities	184,959	202,320	184,959	202,320
	490,444	642,205	395,980	642,205

The maturity structure of AFS investment securities is as follows:

Maturing within one year	304,201	146,298	209,737	146,298
One year to three years	186,243	121,098	186,243	121,098
Three years to five years	–	174,789	–	174,789
More than five years	–	200,020	–	200,020
	490,444	642,205	395,980	642,205

Investment securities disclosed in previous year were reclassified to available-for-sale investment securities to conform with current year classification.

8 AMOUNTS DUE FROM COUNTER PARTIES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Relating to:				
Mortgage loans	8,671,122	11,442,712	8,671,122	11,442,712
Hire purchase and leasing debts	7,217,422	9,735,125	7,217,422	9,735,125
	15,888,544	21,177,837	15,888,544	21,177,837
The maturity structure of amounts due from counterparties is as follows:				
Maturing within one year	6,819,785	6,570,844	6,819,785	6,570,844
One year to three years	6,329,438	10,806,877	6,329,438	10,806,877
Three years to five years	2,472,224	2,775,023	2,472,224	2,775,023
More than five years	267,097	1,025,093	267,097	1,025,093
	15,888,544	21,177,837	15,888,544	21,177,837

9 MORTGAGE ASSETS

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Mortgage assets:				
Portfolio 2004-1	1,088,631	1,258,706	–	–
Portfolio 2005-2	2,031,810	2,089,560	–	–
	3,120,441	3,348,266	–	–
The maturity structure of the mortgage assets is as follows:				
Maturing within one year	283,242	268,580	–	–
One year to three years	520,508	574,795	–	–
Three years to five years	501,286	509,600	–	–
More than five years	2,818,713	3,108,472	–	–
	4,123,749	4,461,447	–	–
Less : Unaccreted discount	(1,003,308)	(1,113,181)	–	–
	3,120,441	3,348,266	–	–

10 ISLAMIC MORTGAGE ASSETS

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Islamic mortgage assets:				
Portfolio 2005-1	2,050,388	2,080,171	–	–
The maturity structure of the Islamic mortgage assets is as follows:				
Maturing within one year	104,196	100,198	–	–
One year to three years	211,078	212,434	–	–
Three years to five years	235,985	228,813	–	–
More than five years	2,143,777	2,275,637	–	–
	2,695,036	2,817,082	–	–
Less : Unaccreted discount	(644,648)	(736,911)	–	–
	2,050,388	2,080,171	–	–

11 ISLAMIC FINANCING DEBTS

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Islamic house financing debts	609,422	654,577	609,422	654,577
Islamic hire purchase debts	4,646,227	2,027,569	4,646,227	2,027,569
	5,255,649	2,682,146	5,255,649	2,682,146
The maturity structure of Islamic financing debts is as follows:				
Maturing within one year	3,755,599	1,155,813	3,755,599	1,155,813
One year to three years	1,251,524	1,123,186	1,251,524	1,123,186
Three years to five years	248,526	403,147	248,526	403,147
	5,255,649	2,682,146	5,255,649	2,682,146

12 OTHER ASSETS

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Accrued interest receivables	145,595	157,224	22,988	32,301
Mortgage assets repurchased	66,271	75,751	–	–
Staff loans and financing	3,789	2,704	3,789	2,704
Deposits	207	203	207	203
Prepayments	403	360	403	360
Income receivables	54,867	56,720	–	–
Other receivables	10,459	7,031	10,459	7,030
	281,591	299,993	37,846	42,598

13 PROPERTY AND EQUIPMENT

Group and Company

2006	**Office Equipment RM'000**	**Furniture and Fittings RM'000**	**Motor Vehicles RM'000**	**Work-in progress RM'000**	**Total RM'000**
Cost					
As at 1 January 2006	2,882	713	968	–	4,563
Additions	332	132	445	51	960
Disposals	(599)	(9)	(392)	–	(1,000)
As at 31 December 2006	2,615	836	1,021	51	4,523
Accumulated Depreciation					
As at 1 January 2006	(1,860)	(375)	(726)	–	(2,961)
Charge for the year	(329)	(66)	(132)	–	(527)
Disposal	599	9	323	–	931
As at 31 December 2006	(1,590)	(432)	(535)	–	(2,557)
Net Book Value					
As at 31 December 2006	1,025	404	486	51	1,966

13 PROPERTY AND EQUIPMENT (CONT'D)

Group and Company

2005	Office Equipment RM'000	Furniture and Fittings RM'000	Motor Vehicles RM'000	Total RM'000
Cost				
As at 1 January 2005	10,041	631	968	11,640
Additions	875	82	–	957
Disposals	–	–	–	–
As at 31 December 2005	10,916	713	968	12,597
Impact of adoption of FRS 138	(8,034)	–	–	(8,034)
Restated as at 31 December 2005	2,882	713	968	4,563
Accumulated Depreciation				
As at 1 January 2005	(3,766)	(322)	(569)	(4,657)
Charge for the year	(1,529)	(53)	(157)	(1,739)
Disposal	–	–	–	–
As at 31 December 2005	(5,295)	(375)	(726)	(6,396)
Impact of adoption of FRS 138	3,435	–	–	3,435
Restated as at 31 December 2005	(1,860)	(375)	(726)	(2,961)
Net Book Value				
As at 31 December 2005	1,022	338	242	1,602

14 INTANGIBLE ASSET

Group and Company

2006	Service Rights RM'000	Computer Software RM'000	Licenses RM'000	Computer Software Under Development RM'000	Total RM'000
Cost					
As at 1 January 2006	10,368	5,822	58	297	16,545
Additions	3,418	79	82	338	3,917
Disposals	–	–	–	–	–
As at 31 December 2006	13,786	5,901	140	635	20,462
Accumulated Ammortisation					
As at 1 January 2006	(882)	(1,676)	(30)	–	(2,588)
Charge for the year	(921)	(1,135)	(14)	–	(2,070)
Disposal	–	–	–	–	–
As at 31 December 2006	(1,803)	(2,811)	(44)	–	(4,658)
Net Book Value					
As at 31 December 2006	11,983	3,090	96	635	15,804

14 INTANGIBLE ASSET (CONT'D)

Group and Company

2005	Service Rights RM'000	Computer Software RM'000	Licenses RM'000	Computer Software Under Development RM'000	Total RM'000
Cost					
As at 1 January 2005	6,245	–	–	–	6,245
Additions	4,123	–	–	–	4,123
As at 31 December 2005	10,368	–	–	–	10,368
Impact of adoption of FRS 138	–	5,822	58	297	6,177
Restated as at 31 December 2005	10,368	5,822	58	297	16,545
Accumulated Ammortisation					
As at 1 January 2005	(124)	–	–	–	(124)
Charge for the year	(758)	–	–	–	(758)
As at 31 December 2005	(882)	–	–	–	(882)
Impact of adoption of FRS 138	–	(1,676)	(30)	–	(1,706)
Restated as at 31 December 2005	(882)	(1,676)	(30)	–	(2,588)
Net Book Value					
As at 31 December 2005	9,486	4,146	28	297	13,957

Service rights are amortised over a straight line basis, over the tenure of the RMBS/IRMBS. The remaining amortisation period of the assets ranges from 8 – 19 years (2005: 9 – 20 years)

15 UNSECURED BEARER BONDS AND NOTES

Group and Company

	Year of Maturity	2006 Amount Outstanding RM'000	2006 Effective Interest Rate %	2005 Amount Outstanding RM'000	2005 Effective Interest Rate %
(a) Fixed Rate Bonds	2006	–	–	10,102,000	3.060 – 3.928
	2007	5,580,000	3.253 – 4.351	5,580,000	3.253 – 4.351
	2008	5,460,000	3.114 – 4.680	4,315,000	3.122 – 4.114
	2009	1,630,000	3.870 – 4.900	710,000	3.870 – 4.080
	2010	1,325,000	4.220 – 4.795	–	–
	2011	480,000	3.912 – 4.350	220,000	3.912
		14,475,000		20,927,000	
Add : Unaccreted premium		373		3,008	
Less : Unamortised discount		(13,003)		(25,508)	
		14,462,370		20,904,500	
(b) Short-term notes	2007	780,000		–	
Less : Unamortised discount		(13,601)		–	
		766,399		–	
Unsecured bearer bonds and notes		15,228,769		20,904,500	

15 UNSECURED BEARER BONDS AND NOTES (CONT'D)

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
The maturity structure of unsecured bearer bonds and notes is as follows:				
Maturing within one year	6,346,596	10,097,413	6,346,596	10,097,413
One year to three years	7,078,536	9,879,837	7,078,536	9,879,837
Three years to five years	1,803,637	707,252	1,803,637	707,252
More than five years	–	219,998	–	219,998
	15,228,769	20,904,500	15,228,769	20,904,500

(a) Fixed rate bonds

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

(b) Short-term notes

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

16 ISLAMIC BONDS

Group and Company

	Year of Maturity	2006 Amount Outstanding RM'000	2006 Effective Profit Rate %	2005 Amount Outstanding RM'000	2005 Effective Profit Rate %
(a) Sanadat Mudharabah Cagamas	2006	–	–	200,000	–
	2007	560,000	–	560,000	–
	2008	120,000	–	120,000	–
	2009	50,000	–	50,000	–
		730,000		930,000	
(b) Sanadat Cagamas					
(i) Primary Bonds	2006	–	–	600,000	3.150 – 3.250
	2007	700,000	3.509 – 3.650	700,000	3.509 – 3.650
	2009	300,000	4.225	300,000	4.225
		1,000,000		1,600,000	
(ii) Secondary Bonds	2006	–	–	56,902	–
	2007	37,802	–	37,802	–
	2008	12,675	–	12,675	–
	2009	12,675	–	12,675	–
		1,063,152		1,720,054	
Less : Unamortised deferred expenses		(4)		(101,687)	
Less : Unamortised discount		(51,028)		(6)	
		1,012,120		1,618,361	

16 ISLAMIC BONDS (CONT'D)

Group and Company

	Year of Maturity	2006 Amount Outstanding RM'000	2006 Effective Profit Rate %	2005 Amount Outstanding RM'000	2005 Effective Profit Rate %
(c) Bithaman Ajil Islamic Securities					
(i) Primary Bonds	2007	1,325,000	3.200 – 3.530	845,000	3.200 - 3.300
	2008	1,155,000	3.350 – 4.000	55,000	3.350 - 3.600
	2009	1,020,000	3.900 – 4.100	–	–
	2010	700,000	4.000 – 4.220	–	–
	2011	200,000	4.160	–	–
		4,400,000		900,000	
(ii) Secondary Bonds	2006	–	–	29,777	–
	2007	165,204	–	24,173	–
	2008	109,346	–	959	–
	2009	70,928	–	–	–
	2010	22,870	–	–	–
	2011	4,160	–	–	–
		4,772,508		954,909	
Less : Unamortised deferred expenses		(313,949)		(48,234)	
		4,458,559		906,675	
Islamic bonds		6,200,679		3,455,036	

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
The maturity structure of Islamic bonds is as follows:				
Maturing within one year	2,606,050	806,244	2,606,050	806,244
One year to three years	2,680,204	2,294,079	2,680,204	2,294,079
Three years to five years	914,425	354,713	914,425	354,713
	6,200,679	3,455,036	6,200,679	3,455,036

(a) Sanadat Mudharabah Cagamas

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

(b) Sanadat Cagamas

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

(c) Bithaman Ajil Islamic Securities

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

17 RESIDENTIAL MORTGAGE-BACKED SECURITIES

Group

		2006		2005	
	Year of Maturity	**Amount Outstanding RM'000**	**Effective Interest Rate %**	**Amount Outstanding RM'000**	**Effective Interest Rate %**
RMBS	2007	580,000	3.700	580,000	3.700
	2008	225,000	4.100	225,000	4.100
	2009	340,000	4.300	340,000	4.300
	2010	250,000	4.440	250,000	4.440
	2011	290,000	4.950	290,000	4.950
	2012	270,000	4.710	270,000	4.710
	2014	345,000	5.500	345,000	5.500
	2015	320,000	5.100	320,000	5.100
	2017	345,000	5.340	345,000	5.340
	2020	385,000	5.650	385,000	5.650
	2025	265,000	5.920	265,000	5.920
		3,615,000		3,615,000	

	Group		Company	
	2006 RM'000	**2005 RM'000**	**2006 RM'000**	**2005 RM'000**
The maturity structure of the RMBS is as follows:				
One year to three years	1,145,000	805,000	–	–
Three years to five years	540,000	590,000	–	–
More than five years	1,930,000	2,220,000	–	–
	3,615,000	3,615,000	–	–

The RMBS have the following features:

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

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

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

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

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

18 ISLAMIC RESIDENTIAL MORTGAGE-BACKED SECURITIES

Group

		2006		2005	
	Year of Maturity	Amount Outstanding RM'000	Profit Rate %	Amount Outstanding RM'000	Profit Rate %
IRMBS	2008	250,000	3.410	250,000	3.410
	2010	215,000	3.840	215,000	3.840
	2012	260,000	4.240	260,000	4.240
	2015	515,000	4.710	515,000	4.710
	2017	410,000	5.010	410,000	5.010
	2020	400,000	5.270	400,000	5.270
		2,050,000		2,050,000	

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
The maturity structure of the IRMBS is as follows:				
One year to three years	250,000	250,000	–	–
Three years to five years	215,000	215,000	–	–
More than five years	1,585,000	1,585,000	–	–
	2,050,000	2,050,000	–	–

The IRMBS have the following features:

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

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

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

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

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

19 DEFERRED TAXATION

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

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Deferred tax liabilities (before offsetting)	136,965	82,619	24,453	18,211
Deferred tax assets (before offsetting)	(376)	(1,569)	(376)	(1,569)
Deferred tax liabilities (after offsetting)	136,589	81,050	24,077	16,642

The movements during the financial year relating to deferred taxation are as follows:

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Balance as at begining of the financial year	81,050	27,476	16,642	13,743
Charged to income statement	51,580	53,574	3,472	2,899
Debit to reserves	3,959	–	3,963	–
Balance as at end of the financial year	136,589	81,050	24,077	16,642

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

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

19 DEFERRED TAXATION (CONT'D)

Group 2005	As at 1.1.2005 RM'000	Debit to Income Statement RM'000	Debit to Reserves RM'000	As at 31.12.2005 RM'000
Deferred tax liabilities				
Excess of capital allowances over depreciation on property and equipment	1,589	57	–	1,646
Temporary difference relating to accretion of discount of AFS investment securities	27,244	53,729	–	80,973
	28,833	53,786	–	82,619
Deferred tax assets				
Temporary difference relating to amortisation of premium of AFS investment securities	1,357	212	–	1,569

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

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

19 DEFERRED TAXATION (CONT'D)

Company

2005	As at 1.1.2005 RM'000	Debit to Income Statement RM'000	Debit to Reserves RM'000	As at 31.12.2005 RM'000
Deferred tax liabilities				
Excess of capital allowances over depreciation on property and equipment	1,589	57	–	1,646
Temporary difference relating to accretion of discount of AFS investment securities	13,511	3,054	–	16,565
	15,100	3,111	–	18,211
Deferred tax assets				
Temporary difference relating to amortisation of premium of AFS investment securities	1,357	212	–	1,569

20 OTHER LIABILITIES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Zakat	1,240	1,200	1,240	1,200
Income attributable to bondholders	6,008	7,751	6,008	7,751
Accrued interest payables on:				
Unsecured bearer bonds and notes	135,098	201,389	135,098	201,389
Interest rate swaps	679	533	679	533
RMBS	19,169	19,169	–	–
Profit attributable to:				
IRMBS	13,603	13,604	–	–
Other payables	10,464	30,550	8,067	4,058
	186,261	274,196	151,092	214,931

21 SHARE CAPITAL

Ordinary shares of RM1 each:

Authorised:				
Balance as at beginning and end of the financial year	500,000	500,000	500,000	500,000
Issued and fully paid up:				
Balance as at beginning and end of the financial year	150,000	150,000	150,000	150,000

22 RESERVES

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Retained earnings	1,271,656	1,194,586	1,271,656	1,194,586
Fair value reserve	11,267	20,702	11,276	20,702
Other reserves (Note 44)	467,517	289,888	–	–
	1,750,440	1,505,176	1,282,932	1,215,288

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to pay dividends out of its entire retained earnings as at 31 December 2006. The Company also has tax exempt income under Section 12 of the Income Tax (Amendments) Act, 1999 which can be paid out as tax exempt dividends.

23 INTEREST INCOME

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Interest income from:				
Amounts due from counter parties relating to:				
Mortgage loans	435,538	523,912	435,538	523,912
Hire purchase and leasing debts	355,380	418,937	355,380	418,937
Mortgage assets	171,730	153,450	–	–
Mortgage assets repurchased	2,636	3,283	–	–
AFS investment securities	7,848	5,254	7,848	5,254
Deposits and placements with financial institutions	45,110	9,560	35,756	9,097
Derivative financial instruments (Note 37)	–	2,605	–	2,605
Repurchased agreements	8,807	5,395	–	–
Others	29	49	29	49
	1,027,078	1,122,445	834,551	959,854
Accretion of discount less amortisation of premium	109,946	106,920	(483)	(821)
	1,137,024	1,229,365	834,068	959,033

24 INCOME FROM ISLAMIC ASSETS

Income from:				
Islamic mortgage assets	109,632	85,001	–	–
Deposits and placements with financial institutions	3,275	–	–	–
Islamic repurchase agreement	882	286	–	–
	113,789	85,287	–	–
Add : Accretion of discount	92,257	73,242	–	–
	206,046	158,529	–	–

25 INTEREST EXPENSE

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Interest expense on:				
Unsecured bearer bonds	701,631	806,875	701,631	806,875
Unsecured bearer notes	15,283	–	15,283	–
RMBS	174,635	74,887	–	–
Deposits and placements of financial institutions	360	2,627	360	2,627
Derivative financial instruments (Note 37)	–	4,981	–	4,981
	891,909	889,370	717,274	814,483

26 PROFIT ATTRIBUTABLE TO ISLAMIC BONDHOLDERS

Profit attributable to:				
IRMBS	93,683	37,217	–	–

27 NON-INTEREST INCOME

Income from Islamic debt securities	12,099	11,311	12,099	11,311
Other Income:				
Unrealised gains/(losses) on revaluation of derivatives	4,143	–	4,143	–
Realised gains on IRS (Note 37)	3,024	–	3,024	–
Realised loss on IRS (Note 37)	(7,331)	–	(7,331)	–
Other non-operating income	5,389	44	5,389	3,341
Gain on disposal of AFS investment	369	–	369	–
Gain on disposal of property and equipment	36	–	36	–
Intangible assets written off	(129)	–	(129)	–
	17,600	11,355	17,600	14,652

28 PROFIT BEFORE TAXATION AND ZAKAT

The following items have been charged in arriving at profit before taxation and zakat:				
Directors' remuneration (Note 29)	408	326	408	326
Rental of premises (Note 36)	757	622	757	622
Hire of equipment (Note 36)	174	180	174	180
Auditors' remuneration:				
Audit fee	98	85	98	85
Non-audit fee	60	94	60	94
Depreciation of property and equipment	527	1,739	527	1,739
Amortisation of computer software	2,070	–	2,070	–
Personnel cost:				
Salary and allowances	6,086	3,947	6,086	3,947
Bonus	2,157	1,012	2,157	1,012
Overtime	37	20	37	20
Defined contribution plan (EPF)	1,282	825	1,282	825
SOCSO	34	26	34	26

Included in the Directors' remuneration and Auditors' remuneration are amounts of RM32,985 and RM34,500 respectively (2005: RM74,750 and RM20,000 respectively) which have been absorbed by the Company on behalf of its subsidiaries.

29 DIRECTORS' REMUNERATION

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

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Non-executive Directors:				
Fees	302	195	302	195
Other remuneration	106	131	106	131
	408	326	408	326

30 TAXATION

(a) Tax charge for the financial year

Current tax	39,903	74,187	30,994	39,039
Deferred taxation (Note 19)	51,580	53,574	3,472	2,899
	91,483	127,761	34,466	41,938

(b) Reconciliation of income tax expense

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

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Profit before taxation	363,585	456,765	128,939	150,112
Tax calculated at tax rate of 20%	100	100	–	–
Tax calculated at tax rate of 28% (2005: 28%)	101,664	127,754	36,103	42,031
Expenses not deductible for tax purposes	196	30	196	30
Deduction arises from zakat contribution	(326)	(123)	(326)	(123)
Change in tax rate	(10,034)	–	(1,390)	–
Temporary difference not recognised in prior year	(117)	–	(117)	–
Tax charge	91,483	127,761	34,466	41,938

31 NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM1,884,636,000 of the Group and RM1,417,128,000 of the Company respectively (2005: RM1,641,219,000 and RM1,351,331,000 for the Group and Company respectively) by the 150,000,000 shares of the Group and Company in issue. The effect of adopting FRS 139 and FRS 138 on comparative information is further disclosed in Note 45 to the financial statements.

Basic and diluted earnings per share is calculated by dividing the net profit for the financial year of RM270,899,000 of the Group and RM93,270,000 of the Company respectively (2005: RM327,840,000 and RM107,010,000 for the Group and Company respectively) by the 150,000,000 shares of the Group and Company in issue. For the diluted earnings per share calculation, no adjustment has been made to weighted number of ordinary shares in issue as there are no dilutive potential ordinary shares.

32 DIVIDENDS

Dividends paid and proposed are as follows:

	Group and Company			
	2006		2005	
	Gross per share sen	Amount of dividend net of tax RM'000	Gross per share sen	Amount of dividend net of tax RM'000
Interim dividend paid	5	5,400	5	5,400
Final dividend proposed/paid	10	10,950	10	10,800
	15	16,350	15	16,200

At the forthcoming Annual General Meeting on 7 May 2007, final gross dividend in respect of the financial year ended 31 December 2006 of 10 sen per share (2005: 10 sen per share), less income tax of 27% (2005: 28%) amounting to RM10,950,000 (2005: RM10,800,000) will be proposed for shareholders' approval.

33 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

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

Related parties	Relationship
CMBS	Subsidiary
BNM Sukuk	Subsidiary
CSME	Subsidiary
Bank Negara Malaysia ("BNM")	Other related party

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

(b) Significant related party transactions and balances

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

33 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)

(b) Significant related party transactions and balances (cont'd)

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

2006	Subsidiary RM'000	BNM RM'000
Income		
Transaction administrator and administrator fees	5,334	–
Expenses		
Fully Automated System for Issuing and Tendering ("FAST") & Real-time Electronic Transfer of Funds and Securities ("RENTAS") charges	–	574
Amount due from		
Transaction administrator and administrator fees	693	–
BNM Current accounts	–	30
2005		
Income		
Transaction administrator and administrator fees	3,298	–
Expenses		
FAST & RENTAS charges	–	281
Amount due from		
Transaction administrator and administrator fees	794	–
BNM Current accounts	–	16

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

In addition, the Company's key management personnel received remuneration for services rendered during the financial year. The total compensation paid to the Company's key management personnel were as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Salaries and other short-term employee benefits	2,707	1,311	2,707	1,311
Retirement benefits	304	–	304	–

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

34 INVESTMENT IN SUBSIDIARY COMPANIES

	2006 RM	2005 RM
Investment in subsidiary companies:		
Unquoted shares at cost	6	2

The subsidiary companies which is the SPE of Cagamas Berhad is as follows:

Name	Principal Activities	Interest in equity held by Cagamas Berhad 2006	2005
CMBS	Purchase of mortgage assets and Islamic mortgage assets from GOM and issue of RMBS/IRMBS to finance the purchases.	100%	100%
BNM Sukuk	Issuance of Islamic securities to finance purchase of beneficial interest of land and building from BNM and thereafter lease back same land and building to BNM.	100%	–
CSME	Securitisation of small and medium enterprise credit facilities via cash or synthetic securitisations or a combination of both.	100%	–

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

CSME was incorporated on 17 February 2006. The results and net assets of the CSME were not consolidated with Cagamas Berhad as the subsidiary has not commenced its business and it is immaterial as at 31 December 2006.

35 CAPITAL COMMITMENTS

	Group and Company 2006 RM'000	2005 RM'000
Capital expenditure:		
Authorised and contracted for	1,231	–
Authorised and but not contracted for	72	–
Analysed as follows:		
Property and equipment	1,303	–

36 LEASE COMMITMENTS

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

Year	RM'000
Maturing within one year	1,119
One year to five years	2,223
	3,342

37 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

	2006 RM'000	**2005 RM'000**
Maturing within one year	200,000	600,000
One year to three years	620,000	40,000
Three years to five years	760,000	250,000
	1,580,000	890,000

The fair value of derivative financial assets and liabilities are further disclosed in Note 40 to the financial statements.

38 INTEREST/PROFIT RATE RISK

Cash flow interest/profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group and Company takes on the exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that an unexpected movement in the market interest/profit rates arise.

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

38 INTEREST/PROFIT RATE RISK (CONT'D)

Group

2006	Effective Interest/ Profit Rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non-interest bearing RM'000	Transactions based in Islamic principles RM'000	Total RM'000
Cash and short-term funds	3.52	772,430	–	–	–	71	753,911	1,526,412
Deposits and placements with financial institutions	3.84	482,100	–	–	–	–	200,000	682,100
Available-for-sale investment securities	5.31	94,464	–	10,008	–	–	385,972	490,444
Amounts due from counter parties:								
Fixed rate portfolio	4.22	6,712,487	6,421,588	2,466,057	288,412	–	–	15,888,544
Mortgage assets	4.00	283,242	520,508	501,286	2,818,713	(1,003,308)	–	3,120,441
Islamic mortgage assets	4.00	–	–	–	–	–	2,050,388	2,050,388
Islamic financing debts	4.22	–	–	–	–	–	5,255,649	5,255,649
Other assets	3.49	8,920	14,614	14,238	31,262	178,038	65,577	312,649
Total assets		8,353,643	6,956,710	2,991,589	3,138,387	(825,199)	8,711,497	29,326,627
Unsecured bearer bonds and notes	3.85	6,346,596	7,078,536	1,803,637	–	–	–	15,228,769
Islamic bonds	3.94	–	–	–	–	–	6,200,679	6,200,679
RMBS	4.83	–	1,145,000	540,000	1,930,000	–	–	3,615,000
IRMBS	4.57	–	–	–	–	–	2,050,000	2,050,000
Other liabilities	–	–	–	–	–	310,312	21,427	331,739
Total liabilities		6,346,596	8,223,536	2,343,637	1,930,000	310,312	8,272,106	27,426,187
Shareholders' funds		–	–	–	–	1,900,440	–	1,900,440
Total liabilities and shareholders' funds		6,346,596	8,223,536	2,343,637	1,930,000	2,210,752	8,272,106	29,326,627
On-balance sheet interest/profit sensitivity gap		2,007,047	(1,266,826)	647,952	1,208,387			
Interest rate swaps interest/profit sensitivity gap		–	–	–	–			
Total interest/profit sensitivity gap		2,007,047	(1,266,826)	647,952	1,208,387			
Cumulative gap		2,007,047	740,221	1,388,173	2,596,560			

38 INTEREST/PROFIT RATE RISK (CONT'D)

Group

2005	Effective Interest/ Profit Rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non-interest bearing RM'000	Transactions based in Islamic principles RM'000	Total RM'000
Cash and short-term funds	3.00	1,167,400	–	–	–	383	622,808	1,790,591
Available-for-sale investment securities	4.13	35,565	10,311	–	200,020	–	396,309	642,205
Amounts due from counter parties:								
Fixed rate portfolio	4.03	6,436,563	10,806,877	2,775,023	1,025,093	–	–	21,043,556
Floating rate portfolio	3.04	134,281	–	–	–	–	–	134,281
Mortgage assets	4.00	268,580	574,795	509,600	3,108,472	(1,113,181)	–	3,348,266
Islamic mortgage assets	4.00	–	–	–	–	–	2,080,171	2,080,171
Islamic financing debts	3.81	–	–	–	–	–	2,682,146	2,682,146
Other assets	3.18	8,705	17,705	13,420	37,585	174,434	64,639	316,488
Total assets		8,051,094	11,409,688	3,298,043	4,371,170	(938,364)	5,846,073	32,037,704
Unsecured bearer bonds and notes	3.61	10,097,413	9,879,837	707,252	219,998	–	–	20,904,500
Islamic bonds	3.48	–	–	–	–	–	3,455,036	3,455,036
RMBS	4.74	–	805,000	590,000	2,220,000	–	–	3,615,000
IRMBS	4.57	–	–	–	–	–	2,050,000	2,050,000
Other liabilities	–	–	–	–	–	311,031	46,961	357,992
Total liabilities		10,097,413	10,684,837	1,297,252	2,439,998	311,031	5,551,997	30,382,528
Shareholders' funds		–	–	–	–	1,655,176	–	1,655,176
Total liabilities and shareholders' funds		10,097,413	10,684,837	1,297,252	2,439,998	1,966,207	5,551,997	32,037,704
On-balance sheet interest/profit sensitivity gap		(2,046,319)	724,851	2,000,791	1,931,172			
Interest rate swaps interest/profit sensitivity gap		–	–	–	–			
Total interests/profit ensitivity gap		(2,046,319)	724,851	2,000,791	1,931,172			
Cumulative gap		(2,046,319)	(1,321,468)	679,323	2,610,495			

38 INTEREST/PROFIT RATE RISK (CONT'D)

Company

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

38 INTEREST/PROFIT RATE RISK (CONT'D)

Company

2005	Effective Interest/ Profit Rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non-interest bearing RM'000	Transactions based in Islamic principles RM'000	Total RM'000
Cash and short-term funds	3.06	808,810	–	–	–	366	587,892	1,397,068
Available-for-sale investment securities	4.13	35,565	10,311	–	200,020	–	396,309	642,205
Amounts due from counter parties:								
Fixed rate portfolio	4.03	6,436,563	10,806,877	2,775,023	1,025,093	–	–	21,043,556
Floating rate portfolio	3.04	134,281	–	–	–	–	–	134,281
Islamic financing debts	3.81	–	–	–	–	–	2,682,146	2,682,146
Other assets	3.18	–	1	304	1,359	50,304	7,919	59,887
Total assets		7,415,219	10,817,189	2,775,327	1,226,472	50,670	3,674,266	25,959,143
Unsecured bearer bonds and notes	3.61	10,097,413	9,879,837	707,252	219,998	–	–	20,904,500
Islamic bonds	3.48	–	–	–	–	–	3,455,036	3,455,036
Other liabilities	–	–	–	–	–	225,115	9,204	234,319
Total liabilities		10,097,413	9,879,837	707,252	219,998	225,115	3,464,240	24,593,855
Shareholders' funds		–	–	–	–	1,365,288	–	1,365,288
Total liabilities and shareholders' funds		10,097,413	9,879,837	707,252	219,998	1,590,403	3,464,240	25,959,143
On-balance sheet interest/profit sensitivity gap		(2,682,194)	937,352	2,068,075	1,006,474			
Interest rate swaps interest/profit sensitivity gap		–	–	–	–			
Total interest/profit sensitivity gap		(2,682,194)	937,352	2,068,075	1,006,474			
Cumulative gap		(2,682,194)	(1,744,842)	323,233	1,329,707			

38 INTEREST/PROFIT RATE RISK (CONT'D)

The table represents a static position which provides an indication of the potential impact on the Group's and Company's balance sheet through gap analysis of the interest/profit rate sensitive assets, liabilities and off-balance sheet items by time bands. A positive interest/profit rate sensitivity gap exists when more interest/profit sensitive assets than interest/profit sensitive liabilities reprice or mature during a given time period. Similarly, a negative interest/profit rate sensitivity gap exists when more interest/profit sensitive liabilities than interest/profit sensitive assets reprice or mature during a given time period. Any negative interest/profit rate sensitivity gap is to be funded by the Group and Company's shareholders' funds, unsecured bearer notes or money market borrowings.

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

39 CREDIT RISK

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

Group

2006	Cash and short-term funds RM'000	Deposit and placements with financial institution RM'000	Available-for-sale investment securities RM'000	Amounts due from counter parties RM'000	Mortgage assets RM'000	Islamic mortgage assets RM'000	Islamic financing debts RM'000	Other assets RM'000	Total on-balance sheet items RM'000	Interest rate swaps RM'000	Total RM'000
Government bodies	29	–	201,014	–	3,120,441	2,050,388	–	241,359	5,613,231	–	5,613,231
Financial Institutions:											
Commercial banks	1,186,382	682,100	94,464	15,568,985	–	–	5,158,276	34,787	22,724,994	–	22,724,994
Investment/ Merchant banks	340,000	–	–	71,310	–	–	–	1,030	412,340	46,086	458,426
Communication, electricity, gas and water	–	–	75,298	166,428	–	–	97,373	1,923	341,022	–	341,022
Transportation	–	–	15,102	–	–	–	–	71	15,173	–	15,173
Leasing	–	–	10,019	81,821	–	–	–	176	92,016	–	92,016
Construction	–	–	5,055	–	–	–	–	148	5,203	–	5,203
Others	1	–	89,492	–	–	–	–	33,155	122,648	–	122,648
Total	1,526,412	682,100	490,444	15,888,544	3,120,441	2,050,388	5,255,649	312,649	29,326,627	46,086	29,372,713

39 CREDIT RISK (CONT'D)

Group

2005	Cash and short-term funds RM'000	Available-for-sale investment securities RM'000	Amounts due from counter parties RM'000	Mortgage assets RM'000	Islamic mortgage assets RM'000	Islamic financing debts RM'000	Other assets RM'000	Total on-balance sheet items RM'000	Interest rate swaps RM'000	Total RM'000
Government bodies	16	424,486	–	3,348,266	2,080,171	–	259,548	6,112,487	–	6,112,487
Financial Institutions:										
Commercial banks	1,735,574	–	20,872,078	–	–	2,578,261	33,922	25,219,835	–	25,219,835
Finance companies	–	–	–	–	–	–	–	–	–	–
Investment/ Merchant banks	–	–	123,580	–	–	–	304	123,884	11,406	135,290
Discount house	55,000	–	–	–	–	–	23	55,023	–	55,023
Communication, electricity, gas and water	–	151,779	182,179	–	–	103,885	2,782	440,625	–	440,625
Transportation	–	20,390	–	–	–	–	93	20,483	–	20,483
Leasing	–	15,135	–	–	–	–	240	15,375	–	15,375
Construction	–	25,326	–	–	–	–	527	25,853	–	25,853
Others	1	5,089	–	–	–	–	19,049	24,139	–	24,139
Total	1,790,591	642,205	21,177,837	3,348,266	2,080,171	2,682,146	316,488	32,037,704	11,406	32,049,110

Company

2006	Cash and short-term funds RM'000	Deposit and placements with financial institution RM'000	Available-for-sale investment securities RM'000	Amounts due from counter parties RM'000	Islamic financing debts RM'000	Other assets RM'000	Total on-balance sheet RM'000	Interest rate swaps items RM'000	Total RM'000
Government bodies	29	–	201,014	–	–	3,002	204,045	–	204,045
Financial Institutions:									
Commercial banks	896,638	200,000	–	15,568,985	5,158,276	29,398	21,853,297	–	21,853,297
Investment/ Merchant banks	340,000	–	–	(71,310)	–	1,030	412,340	46,086	458,426
Communication, electricity, gas and water	–	–	75,298	166,428	97,373	1,923	341,022	–	341,022
Transportation	–	–	15,102	–	–	71	15,173	–	15,173
Leasing	–	–	10,019	81,821	–	176	92,016	–	92,016
Construction	–	–	5,055	–	–	148	5,203	–	5,203
Others	1	–	89,492	–	–	33,849	123,342	–	123,342
Total	1,236,668	200,000	395,980	15,888,544	5,255,649	69,597	23,046,438	46,086	23,092,524

39 CREDIT RISK (CONT'D)

Company

2005	Cash and short-term funds RM'000	Available-for-sale investment securities RM'000	Amounts due from counter parties RM'000	Islamic financing debts RM'000	Other assets RM'000	Total on-balance sheet items RM'000	Interest rate swaps RM'000	Total RM'000
Government bodies	16	424,486	–	–	2,830	427,332	–	427,332
Financial Institutions:								
Commercial banks	1,342,051	–	20,872,078	2,578,261	33,255	24,825,645	–	24,825,645
Finance companies	–	–	–	–	–	–	–	–
Investment/Merchant banks	–	–	123,580	–	304	123,884	11,406	135,290
Discount house	55,000	–	–	–	23	55,023	–	55,023
Communication, electricity, gas and water	–	151,779	182,179	103,885	2,782	440,625	–	440,625
Transportation	–	20,390	–	–	93	20,483	–	20,483
Leasing	–	15,135	–	–	240	15,375	–	15,375
Construction	–	25,326	–	–	527	25,853	–	25,853
Others	1	5,089	–	–	19,833	24,923	–	24,923
Total	1,397,068	642,205	21,177,837	2,682,146	59,887	25,959,143	11,406	25,970,549

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

40 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates relative to their terms. The extent to which instruments are favourable or unfavourable and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

40 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

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

Group

	2006		2005	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Assets				
AFS investment securities	490,444	490,444	642,205	642,205
Amounts due from counter parties	15,888,544	15,965,702	21,177,837	21,167,790
Mortgage assets	3,120,441	3,213,612	3,348,266	3,371,387
Islamic mortgage assets	2,050,388	2,060,762	2,080,171	2,066,365
Islamic financing debts	5,255,649	5,198,428	2,682,146	2,639,149
	26,805,466	26,928,948	29,930,625	29,886,896
Liabilities				
Unsecured bearer bonds and notes	15,228,769	15,249,771	20,904,500	20,837,840
Islamic bonds	6,200,679	6,215,193	3,455,036	3,443,312
RMBS	3,615,000	3,764,925	3,615,000	3,577,308
IRMBS	2,050,000	2,088,554	2,050,000	1,823,992
	27,094,448	27,318,443	30,024,536	29,682,452

	2006		2005	
	Notional Value RM'000	Fair Value RM'000	Notional Value RM'000	Fair Value RM'000
Derivatives				
Asset				
Interest rate swaps	1,580,000	10,286	890,000	–
Liability				
Interest rate swaps	1,580,000	8,889	890,000	2,746

40 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

Company

	2006 Carrying Value RM'000	2006 Fair Value RM'000	2005 Carrying Value RM'000	2005 Fair Value RM'000
Assets				
AFS investment securities	395,980	395,980	642,205	642,205
Amounts due from counter parties	15,888,544	15,965,702	21,177,837	21,167,790
Islamic financing debts	5,255,649	5,198,428	2,682,146	2,639,149
	21,540,173	21,560,110	24,502,188	24,449,144
Liabilities				
Unsecured bearer bonds and notes	15,228,769	15,249,771	20,904,500	20,837,840
Islamic bonds	6,200,679	6,215,193	3,455,036	3,443,312
	21,429,448	21,464,964	24,359,536	24,281,152

	2006 Notional Value RM'000	2006 Fair Value RM'000	2005 Notional Value RM'000	2005 Fair Value RM'000
Derivatives				
Asset				
Interest rate swaps	1,580,000	10,286	890,000	–
Liability				
Interest rate swaps	1,580,000	8,889	890,000	2,746

The following methods and assumptions were used to estimate the fair value of financial instruments as at the balance sheet date:

(a) Cash and short-term funds

The carrying amount of cash and short-term funds is used as reasonable estimate of fair values as the maturity is less than or equal to a month.

(b) Amounts due from counter parties

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

40 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

(c) Mortgage Asset and Islamic mortgage assets

The fair value of the mortgage assets and Islamic mortgage assets are derived at using the present value of future cash flows discounted based on the Cagamas MBS Berhad's weighted average cost of capital ("WACC"). The WACC is the RMBS/IRMBS yield to maturity at the balance sheet date.

(d) Available-for-sale investment securities

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

(e) Islamic financing debts

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

(f) Other financial assets

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

(g) Unsecured bearer bonds and notes

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

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

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

(i) RMBS and IRMBS

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

(j) Other financial liabilities

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

(k) Derivatives

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

41 SEGMENT REPORTING

The Group comprises the following business segments:

(a) Purchase With Recourse ("PWR")

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

41 SEGMENT REPORTING (CONT'D)

(b) Purchase Without Recourse ("PWOR")

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

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

41 SEGMENT REPORTING (CONT'D)

(b) Purchase Without Recourse ("PWOR") (cont'd)

2005	Purchase with recourse RM'000	Purchase without recourse RM'000	Elimination RM'000	Total RM'000
Revenue				
External revenue	959,033	428,861	–	1,387,894
Total revenue	959,033	428,861	–	1,387,894
Results				
Segment results	150,112	306,653	–	456,765
Unallocated expenses	–	–	–	–
Profit from operations	150,112	306,653	–	456,765
Taxation	(41,938)	(85,823)	–	(127,761)
Zakat	(1,164)	-	–	(1,164)
Net profit for the financial year	107,010	220,830	–	327,840
Net assets				
Segment assets	25,959,143	6,079,355	(794)	32,037,704
Unallocated assets	–	–	–	–
Total assets	25,959,143	6,079,355	(794)	32,037,704
Segment liabilities	24,593,855	5,789,467	(794)	30,382,528
Unallocated liabilities	–	–	–	–
Total liabilities	24,593,855	5,789,467	(794)	30,382,528
Other information				
Capital expenditure	957	–	–	957
Depreciation and amortisation	2,560	–	–	2,560

42 CAPITAL ADEQUACY

	Company 2006 RM'000	2005 RM'000
The capital adequacy ratios are as follows:		
Paid-up capital	150,000	150,000
Other reserves	1,271,656	1,194,586
Tier 1 capital	1,421,656	1,344,586
Deferred tax liability	28,040	16,642
Total capital base	1,449,696	1,361,228
Capital ratios:		
Core and risk-weighted	28.8%	23.0%
Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:		
0%	201,112	426,758
10%	–	55,023
20%	22,265,568	24,949,170
50%	61,675	31,889
100%	555,279	507,709
	23,083,634	25,970,549
Total risk-weighted assets	5,039,230	5,518,990

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

43 ISLAMIC OPERATIONS

BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	Company 2006 RM'000	Company 2005 RM'000
ASSETS			
Cash and short-term funds	(a)	583,623	587,892
Deposits and placements with financial institutions	(b)	200,000	–
Available-for-sale investment securities	(c)	184,959	202,320
Islamic financing debts	(d)	5,255,650	2,682,146
Receivables		9,756	6,893
Other assets		135,902	81,870
TOTAL ASSETS		6,369,890	3,561,121
LIABILITIES			
Islamic bonds	(e)	6,200,679	3,455,036
Other liabilities	(f)	7,935	9,204
TOTAL LIABILITIES		6,208,614	3,464,240
ISLAMIC OPERATIONS' FUNDS		161,276	96,881
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		6,369,890	3,561,121

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

	Note	2006 RM'000	2005 RM'000
TOTAL INCOME ATTRIBUTABLE		227,490	111,074
INCOME ATTRIBUTABLE TO THE BONDHOLDERS	(g)	(212,067)	(104,855)
INCOME ATTRIBUTABLE TO THE SHAREHOLDERS	(h)	15,423	6,219
ADMINISTRATION AND GENERAL EXPENSES		(704)	(375)
PROFIT BEFORE TAXATION AND ZAKAT		14,719	5,844
TAXATION		(3,784)	(1,310)
ZAKAT		(1,203)	(1,164)
NET PROFIT FOR THE FINANCIAL YEAR		9,732	3,370

43 ISLAMIC OPERATIONS (CONT'D)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

	Company			
	Allocated Capital Funds RM'000	Fair Value Reserve RM'000	Retained Earnings RM'000	Total RM'000
At 31 December 2005:				
– as previously reported	86,015	–	10,480	96,495
– change in accounting policy	–	386	–	386
– as restated	86,015	386	10,480	96,881
Revaluation of available-for-sale investment securities (net)	–	(337)	–	(337)
Income and expenses recognised directly in equity	–	(337)	–	(337)
Net profit for the financial year	–	–	9,732	9,732
Total recognised income and expenses for the financial year	–	(337)	9,732	9,395
Transferred to Islamic operations	55,000	–	–	55,000
Balance as at 31 December 2006	141,015	49	20,212	161,276

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

	Company			
	Allocated Capital Funds RM'000	Fair Value Reserve RM'000	Retained Earnings RM'000	Total RM'000
Balance as at 1 January 2005:	86,015	–	7,110	93,125
Net profit for the financial year	–	–	3,370	3,370
Total recognised income and expenses for the financial year	–	–	3,370	3,370
Balance as at 31 December 2005:				
As previously stated	86,015	–	10,480	96,495
Effects of adopting FRS 139	–	386	–	386
As restated	86,015	386	10,480	96,881

43 ISLAMIC OPERATIONS (CONT'D)

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

	Note	Company 2006 RM'000	Company 2005 RM'000
OPERATING ACTIVITIES			
Net profit for the financial year		9,732	3,370
Adjustments for investment items and items not involving the movement of cash and cash equivalents:			
Amortisation of premium less accretion of discount on Islamic debt securities		2,024	2,751
Income accrued from Islamic debt securities		(6,158)	(8,446)
Taxation		3,784	1,310
Zakat		1,203	1,164
Operating loss before working capital changes		10,585	149
Increase in Islamic financing debts		(2,573,503)	(470,919)
(Increase)/Decrease in other assets		(220,511)	2,081
Increase in unsecured bearer bonds		2,745,643	906,678
(Decrease)/Increase in other liabilities		(1,310)	1,286
Cash generated from/(unutilised in) operations		(39,097)	439,275
Payment of taxation		(3,784)	(2,720)
Payment of zakat		(1,163)	(440)
Net cash generated from/(unutilised in) operating activities		(44,044)	436,115
INVESTING ACTIVITIES			
Purchase of investments		(95,000)	(51,068)
Redemption of investments		110,000	55,000
Income received from Islamic debt securities		224,775	5,588
Net cash generated from investing activities		239,775	9,520
Net increase in cash and cash equivalents		195,731	445,635
Cash and cash equivalents as at beginning of the financial year		587,892	142,257
Cash and cash equivalents as at end of the financial year		783,623	587,892
Analysis of cash and cash equivalents:			
Cash and short term funds	(a)	583,623	587,892
Deposits and palcements with financial institutions	(b)	200,000	–
		783,623	587,892

43 ISLAMIC OPERATIONS (CONT'D)

(a) CASH AND SHORT-TERM FUNDS

	Company 2006 RM'000	Company 2005 RM'000
Cash and balances with banks and other financial institutions	53	12
Mudharabah money at call and deposit placements maturing within one month	583,570	587,880
	583,623	587,892

(b) DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2006 RM'000	2005 RM'000
Licensed bank	200,000	–

(c) AVAILABLE-FOR-SALE INVESTMENT SECURITIES

	2006 RM'000	2005 RM'000
At fair value:		
Islamic debt securities	184,959	202,320

The maturity structure of AFS investment securities is as follows:

	2006 RM'000	2005 RM'000
Maturing within one year	179,876	110,733
One year to three years	5,083	91,587
	184,959	202,320

(d) ISLAMIC FINANCING DEBTS

	2006 RM'000	2005 RM'000
Islamic house financing debts	609,422	654,577
Islamic hire purchase debts	4,646,228	2,027,569
	5,255,650	2,682,146

The maturity structure of Islamic financing debts is as follows:

	2006 RM'000	2005 RM'000
Maturing within one year	3,755,600	1,155,813
One year to three years	1,251,524	1,123,186
Three years to five years	248,526	403,147
	5,255,650	2,682,146

(e) ISLAMIC BONDS

	2006 RM'000	2005 RM'000
Sanadat Mudharabah Cagamas	730,000	930,000
Sanadat Cagamas	1,012,120	1,618,361
Bithaman Ajil Islamic Securities	4,458,559	906,675
	6,200,679	3,455,036

The maturity structure of unsecured bearer bonds is as follows:

	2006 RM'000	2005 RM'000
Maturing within one year	2,606,050	806,244
One year to three years	2,680,204	2,294,079
Three years to five years	914,425	354,713
	6,200,679	3,455,036

43 ISLAMIC OPERATIONS (CONT'D)

(f) OTHER LIABILITIES

	Company 2006 RM'000	Company 2005 RM'000
Zakat	1,240	1,200
Income attributable to bondholders	6,008	7,751
Other liabilities	687	253
	7,935	9,204

(g) INCOME ATTRIBUTABLE TO THE BONDHOLDERS

	2006 RM'000	2005 RM'000
Income from Islamic financing debts	198,730	93,445
Income from AFS investment securities	5,749	7,892
Income from deposits and placements with financial institutions	7,588	3,518
	212,067	104,855

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

	2006 RM'000	2005 RM'000
Bai Al-Dayn	198,730	23,303
Mudharabah	7,590	3,516
Bai Bithaman Ajil	4,294	77,192
Murabahah	593	844
Musyarakah	860	–
	212,067	104,855

(h) INCOME ATTRIBUTABLE TO THE SHAREHOLDERS

	2006 RM'000	2005 RM'000
(Expenses)/Income from Islamic financing debts	(1,929)	374
Income from AFS investment securities	410	555
Income from deposits and placements with financial institutions	16,942	5,290
	15,423	6,219

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

	2006 RM'000	2005 RM'000
Bai Al-Dayn	(1,929)	374
Mudharabah	16,941	5,291
Bai Bithaman Ajil	322	445
Murabahah	39	109
Musyarakah	50	–
	15,423	6,219

43 ISLAMIC OPERATIONS (CONT'D)

(i) CAPITAL ADEQUACY

	Company 2006 RM'000	Company 2005 RM'000
Allocated capital funds	141,015	86,015
Other reserves	20,261	10,480
Tier 1 capital	161,276	96,495
Total capital base	161,276	96,495
Capital ratios:		
Core and risk weighted	11.0%	10.3%
Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:		
0%	135,955	81,882
10%	–	–
20%	5,949,843	3,169,957
50%	15,183	20,483
100%	268,909	288,799
	6,369,890	3,561,121
Total risk-weighted assets	1,466,469	933,031

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

(j) ZAKAT OBLIGATIONS

The Company only pays zakat on its business. The Company does not pay zakat on behalf of the bondholders and shareholders.

(k) SYARIAH ADVISOR

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

44 DISCRETIONARY BONUS FEE

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

45 CHANGES IN ACCOUNTING POLICIES

Set out below are changes in accounting policies that resulted in reclassification of prior year comparatives:

(a) FRS 139: Financial Instruments – Recognition and Measurement

The following amounts as at 31 December 2005 have been reclassified and restated due to the adoption of FRS 139:

	As Previously stated RM'000	Effects of adopting FRS 139 RM'000	As Restated RM'000
Group and Company			
Assets			
Investment securities	621,503	(621,503)	–
AFS Investment securities	–	642,205	642,205
Liabilities and Shareholders' funds			
Derivative financial instruments	–	2,746	2,746
Fair value reserve	–	20,702	20,702
Retained profit	1,197,332	(2,746)	1,194,586

(b) FRS 138: Intangible Assets

The following amounts as at 31 December 2005 have been reclassified and restated due to the adoption of FRS 138:

	As Previously stated RM'000	Effects of adopting FRS 138 RM'000	As Restated RM'000
Group			
Property and equipment	6,201	(4,599)	1,602
Intangible assets	9,486	4,471	13,957
Other assets	299,865	128	299,993
Company			
Property and equipment	6,201	(4,599)	1,602
Intangible assets	9,486	4,471	13,957
Other assets	42,470	128	42,598

(c) The net tangible assets disclosed in Note 31 to the financial statement has been restated accordingly as a result of Notes 45 (a) and (b) above. The restated net tangible assets as at 31 December 2005 is RM1,641,219,000 and RM1,351,331,000 for the Group and Company respectively. The restated net tangible assets per share for 2005 is RM10.94 and RM9.01 for the Group and Company respectively.

The restatements of the above amounts have been made in accordance with the transitional provisions in the respective FRS.

46 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 30 March 2007.

47 EVENTS AFTER THE BALANCE SHEET

On 26 September 2005, the Board of Directors has approved the proposed restructuring of Cagamas and its subsidiaries to incorporate a new holding company and exchange Cagamas' shares held by its shareholders for shares in the new holding company.

The restructuring has yet to materialise as at the financial year ended 31 December 2006. In March 2007, the bondholders of Cagamas have approved the scheme. The restructuring will be implemented once appropriate approvals have been obtained from the shareholders and a gazetted order by Ministry of Finance on tax and stamp duty exemptions has been obtained.

The Company expects the restructuring to take effect in the second half of 2007. Under the proposed restructuring, the financial results of Cagamas and the subsidiaries will be consolidated by the holding company.

statement by directors

pursuant to section 169(15) of the Companies act, 1965

We, Dato' Ooi Sang Kuang and Dato' Sri Tay Ah Lek, two of the Directors of Cagamas Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 146 to 204 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2006 and of the results and cash flows of the Group and Company for the financial year ended on that date in accordance with MASB Approved Applicable Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 30 March 2007.

DATO' OOI SANG KUANG
CHAIRMAN

DATO' SRI TAY AH LEK
DIRECTOR

statutory declaration

pursuant to section 169(16) of the Companies act, 1965

I, Choy Khai Choon, the officer primarily responsible for the financial management of Cagamas Berhad, do solemnly and sincerely declare that the financial statements set out on pages 146 to 204 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

CHOY KHAI CHOON

Subscribed and solemnly declared by the abovenamed Choy Khai Choon at Kuala Lumpur in Malaysia on 30 March 2007, before me.

AHMAD LAYA
COMMISSIONER FOR OATHS

report of the auditors

to the members of Cagamas Berhad (157931-A)

We have audited the financial statements set out on pages 146 to 204. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

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

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

(ii) the state of affairs of the Group and Company as at 31 December 2006 and of the results and cash flows of the Group and Company for the financial year ended on that date;

and

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

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

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

PRICEWATERHOUSECOOPERS
(No. AF:1146)
Chartered Accountants

MOHAMMAD FAIZ BIN MOHAMMAD AZMI
(No. 2025/03/08 (J))
Partner of the firm

30 March 2007

borang proksi

Cagamas Berhad 157931-A

Jumlah Syer

Saya/Kami ______________________________
(NAMA PENUH DI DALAM HURUF BESAR)

daripada ______________________________
(NAMA SYARIKAT)

dari ______________________________
(ALAMAT PENUH)

sebagai ahli **CAGAMAS BERHAD,** dengan ini melantik Pengerusi bagi Mesyuarat atau

____
(NAMA PENUH DI DALAM HURUF BESAR)

dari ______________________________
(ALAMAT PENUH)

atau jika beliau tidak dapat hadir ______________________________
(NAMA PENUH DI DALAM HURUF BESAR)

dari ______________________________
(ALAMAT PENUH)

sebagai proksi saya/kami untuk mengundi bagi pihak saya/kami di Mesyuarat Agung Tahunan Kedua Puluh Syarikat, yang akan diadakan di Bilik Persidangan, Tingkat 16, Blok A, Bank Negara Malaysia, Jalan Dato' Onn, 50480 Kuala Lumpur pada hari Isnin, 7 Mei 2007 jam 12.30 tengahari dan pada sebarang penangguhannya.

Proksi saya/kami akan mengundi sama ada dengan mengangkat tangan atau dengan membuang undi dengan menandakan **"X"** seperti di bawah:

NO.	RESOLUSI BIASA		SETUJU	BANGKANG
1.	Penerimaan Penyata Kewangan yang telah diaudit dan Laporan-Laporan	(Resolusi No. 1)		
2.	Pengisytiharan Dividen Akhir	(Resolusi No. 2)		
3.	Pembayaran Ganjaran Pengarah	(Resolusi No. 3)		
4.	Pelantikan Semula Pengarah di bawah Artikel 19.13 dan 19.14	(Resolusi No. 4)		
5.	Pelantikan Semula Pengarah di bawah Artikel 19.10	(Resolusi No. 5)		
6.	Pelantikan Juruaudit	(Resolusi No. 6)		

Pada ______________ haribulan ________________ 2007

____
Tandatangan Ahli

Nota

1. Seorang ahli yang berhak menghadiri dan mengundi dalam Mesyuarat yang dinyatakan di atas boleh melantik seorang proksi untuk hadir dan mengundi bagi pihaknya. Seorang proksi tidak semestinya seorang ahli Syarikat.
2. Sekiranya ahli syarikat adalah sebuah badan korporat, borang proksi ini mestilah dimeterai ataupun ditandatangani oleh wakil mutlaknya yang telah diberikuasa.
3. Kesemua borang proksi mestilah diserahkan kepada Pejabat Berdaftar Syarikat di Tingkat 19, Bahagian Barat, Menara Maybank, 100 Jalan Tun Perak, 50050 Kuala Lumpur tidak lewat dari 48 jam sebelum masa yang ditetapkan untuk Mesyuarat berkenaan atau untuk Mesyuarat yang ditangguhkan mengikut mana yang berkenaan.

Dilipat

SETEM

Setiausaha Syarikat

CAGAMAS BERHAD

Tingkat 19, Bahagian Barat

Menara Maybank

100 Jalan Tun Perak

50050 Kuala Lumpur

Dilipat

form of proxy

Cagamas Berhad 157931-A

Number of Shares

I/We ____

(FULL NAME IN BLOCK CAPITALS)

from ____

(NAME OF COMPANY)

of ____

(FULL ADDRESS)

being a member/members of **CAGAMAS BERHAD**, hereby appoint the Chairman of the meeting or

____

(FULL NAME IN BLOCK CAPITALS)

of ____

(FULL ADDRESS)

or failing him/her ____

(FULL NAME IN BLOCK CAPITALS)

of ____

(FULL ADDRESS)

as my/our proxy to vote for me/us on my/our behalf at the Twentieth Annual General Meeting of the Company, to be held at the Conference Room, 16th Floor, Block A, Bank Negara Malaysia, Jalan Dato' Onn, 50480 Kuala Lumpur on Monday, 7 May 2007 at 12.30 p.m. and at any adjournment thereof.

My/Our Proxy is to vote either on a show of hands or on a poll as indicated below with an **"X":**

NO.	ORDINARY RESOLUTIONS		FOR	AGAINST
1.	Adoption of Audited Financial Statements and Reports	(Resolution No. 1)		
2.	Declaration of Final Dividend	(Resolution No. 2)		
3.	Payment of Directors' Remuneration	(Resolution No. 3)		
4.	Re-election of Directors under Articles 19.13 and 19.14	(Resolution No. 4)		
5.	Re-election of Directors under Article 19.10	(Resolution No. 5)		
6.	Appointment of Auditors	(Resolution No. 6)		

Dated this __________ day of __________________ 2007

____

Signature of Member(s)

Notes

1. A member entitled to attend and vote at the Meeting may appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company.

2. In the case where a member is a corporation, this Form of Proxy must be executed under its common seal or under the hand of its attorney.

3. All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at 19th Floor, West Wing, Menara Maybank, 100 Jalan Tun Perak, 50050 Kuala Lumpur not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting as the case may be.

Fold

STAMP

Company Secretary
CAGAMAS BERHAD
19th Floor, West Wing
Menara Maybank
100 Jalan Tun Perak
50050 Kuala Lumpur

Fold