Financial Statements

Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements of the Group and the Company for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

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

The principal activities of Cagamas consist of purchase of mortgage loans, personal loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issue of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.

The principal activities of CMBS consist of purchases of mortgage assets and Islamic mortgage assets from the Government of Malaysia ("GOM") and issuance of residential mortgage-backed securities ("RMBS") and Islamic residential mortgage-backed securities ("IRMBS") to finance the purchases.

During the year, CSRP commenced its operations which consist of mortgage guarantee and mortgage indemnity business and other form of credit protection in relation to My First Home Scheme (Skim Rumah Pertamaku) initiated by the GOM.

Other than as declared above, 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	442,108	22,814

DIVIDENDS

The dividends paid by the Company since 31 December 2010 were as follows:

	RM'000
In respect of the financial year ended 31 December 2011:	
– a first interim dividend paid on 27 May 2011	16,875
– a second interim dividend paid on 25 October 2011	5,625
	22,500

RESERVES AND PROVISIONS

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

Directors' Report

RATING PROFILE OF THE BONDS AND SUKUK

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

RELATED PARTY TRANSACTIONS

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

DIRECTORS

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

Dato' Ooi Sang Kuang (Chairman)	
Datuk George Ratilal	
Dato' Charon Wardini Mokhzani	
Dato' Sri Abdul Wahid Omar	
Dato' Mohd Razif Abd Kadir	(Deceased on 8.8.2011)
Tang Wing Chew	(Resigned on 12.8.2011)
Tan Sri Dato' Sri Tay Ah Lek	(Appointed on 12.8.2011)
Cheah Tek Kuang	(Appointed on 12.8.2011)
Marzunisham bin Omar	(Appointed on 12.8.2011)

In accordance with Articles 19.13 and 19.14 of the Company's Articles of Association, Dato' Charon Wardini Mokhzani retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 19.10 of the Company's Articles of Association, Tan Sri Dato' Sri Tay Ah Lek, Cheah Tek Kuang and Marzunisham bin Omar who vacate office at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration as disclosed in Note 34 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

According to the register of Directors' shareholdings, the Directors in office at the end of the financial year did not hold any interest in shares or options over shares in the Company or shares, options over shares and debentures of its related corporations during the financial year.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statement and statement of financial positions of the Group and the Company were made out, the Directors took reasonable steps:

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

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

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

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

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

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

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

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

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

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

At this 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.

Directors' Report

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

In the opinion of the Directors:

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

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

AUDITORS

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

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

DATO' OOI SANG KUANG
CHAIRMAN

DATUK GEORGE RATILAL
DIRECTOR

Statement of Financial Position

At 31 December 2011

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
ASSETS					
Cash and short-term funds	5	**479,219**	150,788	**458**	551
Deposits and placements with financial institutions	6	**323,394**	81,722	**688**	350
Derivative financial instruments	7	**–**	2,848	**–**	–
Available-for-sale investment securities	8	**2,062,487**	1,489,594	**–**	–
Amount due from counterparties	9	**4,307,044**	4,325,110	**–**	–
Islamic financing debts	10	**6,879,635**	6,854,347	**–**	–
Mortgage assets					
– Conventional	11	**10,510,760**	11,384,572	**–**	–
– Islamic	12	**7,434,894**	7,696,191	**–**	–
Hire purchase assets					
– Conventional	13	**52**	761	**–**	–
– Islamic	14	**21,221**	25,463	**–**	–
Amount due from SPE		**67**	62	**–**	–
Other assets	15	**36,093**	42,879	**–**	–
Property and equipment	16	**4,311**	5,363	**–**	–
Intangible assets	17	**11,796**	13,943	**–**	–
Deferred taxation	18	**13,810**	5,170	**–**	–
Investment in subsidiaries	19	**–**	–	**4,081,628**	3,981,628
Investment in SPE	20	**–**	–	**–**	–
Interest in a joint venture company	21	**53,079**	51,852	**50,000**	50,000
Amount due from subsidiary		**–**	–	**–**	133,335
TOTAL ASSETS		**32,137,862**	32,130,665	**4,132,774**	4,165,864
LIABILITIES					
Unsecured bearer bonds and notes	22	**9,868,021**	10,039,490	**–**	–
Sukuk	23	**10,585,467**	10,651,329	**–**	–
Derivative financial instruments	7	**58,278**	46,813	**–**	–
Residential mortgage-backed securities	24	**3,842,781**	4,135,420	**–**	–
Islamic residential mortgage-backed securities	25	**3,382,798**	3,382,798	**–**	–
Deferred guarantee fee income		**748**	–	**–**	–
Deferred Wakalah fee income		**219**	–	**–**	–
Deferred taxation	18	**429,539**	368,789	**–**	33,335
Provision for taxation		**15,374**	13,272	**–**	64
Other liabilities	26	**63,642**	13,473	**5**	10
Amount due to a subsidiary		**–**	–	**2**	2
TOTAL LIABILITIES		**28,246,867**	28,651,384	**7**	33,411
REPRESENTED BY:					
Share capital	27	**150,000**	150,000	**150,000**	150,000
Reserves	28	**3,740,995**	3,329,281	**3,982,767**	3,982,453
SHAREHOLDERS' FUNDS		**3,890,995**	3,479,281	**4,132,767**	4,132,453
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**32,137,862**	32,130,665	**4,132,774**	4,165,864
NET TANGIBLE ASSETS PER SHARE (RM)	36	**25.86**	23.10	**27.55**	27.55

Income Statement

For the Financial Year Ended 31 December 2011

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Interest income	29	**1,047,142**	1,119,453	**31**	11
Interest expense	30	**(652,088)**	(698,696)	**–**	–
Income from Islamic operations	48	**234,204**	238,946	**–**	–
Non-interest (expense)/income	31	**(773)**	(9,149)	**30,500**	164,585
		628,485	650,554	**30,531**	164,596
Administration and general expenses		**(20,089)**	(20,295)	**(63)**	(158)
Personnel cost		**(18,020)**	(20,701)	**–**	–
Share of profit in a joint venture company	21	**1,112**	922	**–**	–
PROFIT BEFORE TAXATION AND ZAKAT	33	**591,488**	610,480	**30,468**	164,438
Zakat		**(2,260)**	(836)	**–**	–
Taxation	35	**(147,120)**	(153,980)	**(7,654)**	(41,116)
PROFIT FOR THE FINANCIAL YEAR		**442,108***	455,664*	**22,814**	123,322
EARNINGS PER SHARE (SEN)	36	**294.74**	303.78	**15.21**	82.21
DIVIDEND PER SHARE (SEN)	37			**15.00**	15.00

* As set out in Note 49 to the financial statements, profit for the financial year of the Group includes profit from CMBS of RM212,088,000 (2010: RM213,240,000) that may be subject to a discretionary bonus fee to the GOM after full settlement of the RMBS/IRMBS.

Statement of Comprehensive Income
For the Financial Year Ended 31 December 2011

	Group		Company	
	2011 **RM'000**	**2010** **RM'000**	**2011** **RM'000**	**2010** **RM'000**
Profit for the financial year	**442,108**	455,664	**22,814**	123,322
Other comprehensive income/(loss):				
Available-for-sale investment securities				
– Net gain on fair value changes before taxation	**4,915**	3,488	**–**	–
– Deferred taxation	**(1,252)**	(851)	**–**	–
Cash flow hedge				
– Net loss on cash flow hedge before taxation	**(15,274)**	(3,600)	**–**	–
– Deferred taxation	**3,602**	(600)	**–**	–
– Transfer to income statement upon ineffective hedging	**–**	107	**–**	–
– Deferred taxation	**–**	(27)	**–**	–
Share of other comprehensive income in a joint venture company	**115**	65	**–**	–
Other comprehensive loss for the financial year, net of taxation	**(7,894)**	(1,418)	**–**	–
Total comprehensive income for the financial year	**434,214**	454,246	**22,814**	123,322

Statement of Changes in Equity
For the Financial Year Ended 31 December 2011

Group RM'000	Note	Issued and fully paid ordinary shares of RM1 each	Non-Distributable				Distributable		
		Share capital	Share premium relief reserve	Reverse acquisition relief reserve	AFS reserve	Cash flow hedge reserve	Retained earnings	Other reserves*	Total
Balance as at 1 January 2011		150,000	3,831,628	(3,831,628)	3,545	(29,025)	1,939,629	1,415,132	3,479,281
Profit for the financial year		–	–	–	–	–	442,108	–	442,108
Other comprehensive income/(loss)		–	–	–	3,663	(11,672)	–	–	(8,009)
Share of other comprehensive income in a joint venture company		–	–	–	115	–	–	–	115
Total comprehensive income/(loss) for the financial year		–	–	–	3,778	(11,672)	442,108	–	434,214
Transfer to share reserve		–	–	–	–	–	(212,088)	212,088	–
First interim dividends in respect of financial year ended 31 December 2011	37	–	–	–	–	–	(16,875)	–	(16,875)
Second interim dividends in respect of the financial year ended 31 December 2011	37	–	–	–	–	–	(5,625)	–	(5,625)
Balance as at 31 December 2011	27 & 28	150,000	3,831,628	(3,831,628)	7,323	(40,697)	2,147,149	1,627,220	3,890,995

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

Statement of Changes in Equity

For the Financial Year Ended 31 December 2011

Group RM'000	Note	Issued and fully paid ordinary shares of RM1 each	Non-Distributable				Distributable		
		Share capital	Share premium relief reserve	Reverse acquisition relief reserve	AFS reserve	Cash flow hedge reserve	Retained earnings	Other reserves*	Total
Balance as at 1 January 2010		150,000	3,831,628	(3,831,628)	843	(24,905)	1,719,705	1,201,892	3,047,535
Profit for the financial year		–	–	–	–	–	455,664	–	455,664
Other comprehensive income/(loss)		–	–	–	2,637	(4,120)	–	–	(1,483)
Share of other comprehensive income in a joint venture company		–	–	–	65	–	–	–	65
Total comprehensive income/(loss) for the financial year		–	–	–	2,702	(4,120)	455,664	–	454,246
Transfer to share reserve		–	–	–	–	–	(213,240)	213,240	–
First interim dividends in respect of financial year ended 31 December 2010	37	–	–	–	–	–	(16,875)	–	(16,875)
Second interim dividends in respect of financial year ended 31 December 2010	37	–	–	–	–	–	(5,625)	–	(5,625)
Balance as at 31 December 2010	27 & 28	150,000	3,831,628	(3,831,628)	3,545	(29,025)	1,939,629	1,415,132	3,479,281

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

Statement of Changes in Equity
For the Financial Year Ended 31 December 2011

Company RM'000	**Note**	**Issued and fully paid ordinary shares RM1 each**	**Non-Distributable**	**Distributable**	
		Share capital	**Share premium relief reserves**	**Retained profits**	**Total**
Balance as at 1 January 2011		**150,000**	**3,831,628**	**150,825**	**4,132,453**
Profit for the financial year		**–**	**–**	**22,814**	**22,814**
Other comprehensive income		**–**	**–**	**–**	**–**
Total comprehensive income for the financial year		**–**	**–**	**22,814**	**22,814**
First interim dividends in respect of financial year ended 31 December 2011	**37**	**–**	**–**	**(16,875)**	**(16,875)**
Second interim dividends in respect of financial year ended 31 December 2011		**–**	**–**	**(5,625)**	**(5,625)**
Balance as at 31 December 2011	**27 & 28**	**150,000**	**3,831,628**	**151,139**	**4,132,767**
Balance as at 1 January 2010		150,000	3,831,628	50,003	4,031,631
Profit for the financial year		–	–	123,322	123,322
Other comprehensive income		–	–	–	–
Total comprehensive income for the financial year		–	–	123,322	123,322
First interim dividends in respect of financial year ended 31 December 2010	37	–	–	(16,875)	(16,875)
Second interim dividends in respect of financial year ended 31 December 2010	37	–	–	(5,625)	(5,625)
Balance as at 31 December 2010	27 & 28	150,000	3,831,628	150,825	4,132,453

Statement of Cash Flow

For the Financial Year Ended 31 December 2011

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
OPERATING ACTIVITIES					
Profit for the financial year		**442,108**	455,664	**22,814**	123,322
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		**1,678**	(1,107)	**–**	–
Amortisation of premium less accretion of discount on Islamic debt securities		**(2,486)**	(1,184)	**–**	–
Accretion of discount on mortgage assets - Conventional		**(283,338)**	(299,864)	**–**	–
Accretion of discount on mortgage assets - Islamic		**(179,100)**	(188,136)	**–**	–
Accretion of discount on hire purchase assets - Conventional		**(10)**	(33)	**–**	–
Accretion of discount on hire purchase assets - Islamic		**(2,639)**	(898)	**–**	–
Accretion of discount on Islamic commercial papers		**–**	2,377	**–**	–
Income from Islamic debt securities		**(828)**	(190,315)	**–**	–
Interest income		**(762,096)**	(817,651)	**–**	–
Income from Islamic operations		**(650,029)**	(432,348)	**–**	–
Interest expense		**652,088**	698,696	**–**	–
Profit attributable to Sukuk holders		**596,784**	569,752	**–**	–
Guarantee fee expense		**(1)**	206	**–**	–
Wakalah fee expense		**104**	175	**–**	–
Management fee		**(500)**	(1,250)	**(500)**	(1,250)
Depreciation of property and equipment		**1,126**	1,172	**–**	–
Amortisation of intangible assets		**2,631**	2,364	**–**	–
Gain on disposal of property and equipment		**(26)**	(10)	**–**	–
Gain on disposal of available-for-sale investment securities		**(4,948)**	(1,349)	**–**	–
Unrealised loss on revaluation of IRS		**3**	472	**–**	–
Realised loss on IRS hedge		**–**	107	**–**	–
Share of profit in a joint venture company		**(1,112)**	(922)	**–**	–
Taxation		**154,620**	153,980	**7,654**	41,116
Zakat		**2,260**	836	**–**	–
Operating (loss)/profit before working capital changes		**(33,711)**	(49,266)	**29,968**	163,188
Decrease in amount due from counterparties		**24,262**	332,398	**–**	–
Increase in Islamic financing debts		**(18,730)**	(2,275,815)	**–**	–
Decrease in mortgage assets - Conventional		**1,173,144**	1,102,582	**–**	–
Decrease in mortgage assets - Islamic		**435,076**	465,244	**–**	–
Decrease in hire purchase assets - Conventional		**1,463**	1,949	**–**	–
Decrease in hire purchase assets - Islamic		**7,279**	3,810	**–**	–
Decrease/(increase) in other assets		**817**	(111,045)	**–**	–
Decrease/(increase) in amount due from subsidiary		**–**	–	**133,335**	(133,335)
Decrease in unsecured bearer bonds and notes		**(165,000)**	(1,397,301)	**–**	–

Statement of Cash Flow
For the Financial Year Ended 31 December 2011

	Note	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
OPERATING ACTIVITIES					
(Decrease)/increase in Sukuk		**(79,180)**	1,470,505	**–**	–
Decrease in residential mortgage-backed securities		**(292,638)**	(767,283)	**–**	–
Decrease in Islamic residential mortgage-backed securities		**–**	(546,844)	**–**	–
Increase/(decrease) in other liabilities		**16,272**	(922)	**(33,340)**	9
Cash generated from/(utilised in) operating activities		**1,069,054**	(1,771,988)	**129,963**	29,862
Profit received from Islamic assets		**648,394**	768,592	**–**	–
Guarantee fee paid		**(19)**	–	**–**	–
Wakalah fee paid		**(108)**	–	**–**	–
Management fee received		**500**	1,250	**500**	1,250
Fee income received		**991**	–	**–**	–
Interest received		**723,284**	784,033	**–**	–
Interest paid		**(658,558)**	(712,785)	**–**	–
Profit attributable to Sukuk holders		**(583,466)**	(546,120)	**–**	–
Payment of zakat		**(1,785)**	(1,702)	**–**	–
Payment of taxation		**(64,725)**	(98,455)	**(7,718)**	(7,717)
Net cash generated from/(utilised in) operating activities		**1,133,562**	(1,577,175)	**122,745**	23,395
INVESTING ACTIVITIES					
Purchase of available-for-sale investment securities		**(3,235,490)**	(2,498,056)	**–**	–
Sale of available-for-sale investment securities		**2,678,389**	3,053,593	**–**	–
Derivative financial instruments		**(964)**	(1,889)	**–**	–
Purchase of property and equipment		**(74)**	(290)	**–**	–
Purchase of intangible assets		**(484)**	(701)	**–**	–
Investment in a subsidiary		**–**	–	**(100,000)**	–
Proceeds received from disposal of property and equipment		**26**	16	**–**	–
Income received from available-for-sale investment securities		**16,750**	6,413	**–**	–
Income received from Islamic securities		**888**	176	**–**	–
Net cash (utilised in)/generated from investing activities		**(540,959)**	559,262	**(100,000)**	–
FINANCING ACTIVITIES					
Payment of dividends		**(22,500)**	(22,500)	**(22,500)**	(22,500)
Net cash utilised in financing activities		**(22,500)**	(22,500)	**(22,500)**	(22,500)
Net increase/(decrease) in cash and cash equivalents		**570,103**	(1,040,413)	**245**	895
Cash and cash equivalents as at beginning of the financial year		**232,510**	1,272,923	**901**	6
Cash and cash equivalents as at end of the financial year		**802,613**	232,510	**1,146**	901
Analysis of cash and cash equivalents:					
Cash and short-term funds	5	**479,219**	150,788	**458**	551
Deposits and placements with financial institutions	6	**323,394**	81,722	**688**	350
		802,613	232,510	**1,146**	901

Notes to the Financial Statements

1. GENERAL INFORMATION

The principal activities of the Company is investment holding.

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

The principal activities of Cagamas consist of purchase of mortgage loans, personal loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issue of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.

The principal activities of CMBS consist of the purchases of mortgage assets and Islamic mortgage assets from the Government of Malaysia ("GOM") and issuance of residential mortgage-backed securities ("RMBS") and Islamic residential mortgage-backed securities ("IRMBS") to finance the purchases.

The principal activities of CSRP consist of mortgage guarantee and mortgage indemnity business and other form of credit protection in relation to My First Home Scheme (Skim Rumah Pertamaku) initiated by the GOM.

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

The addresses of the registered office and principal place of business is Level 32, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

The preparation of financial statements in conformity with FRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ.

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

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) *Standards, amendments to published standards and interpretations of existing standards that are applicable to the Group and the Company and are effective:*

- Amendment to FRS 7 "Financial instruments: Disclosures - improving disclosures about financial instruments".

  Changes to the above standard has resulted in additional disclosures in the financial statements of the Group and the Company.

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

(i) Financial year beginning on 1 January 2012

In the next financial year, the Group and the Company will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ("MFRS"). MFRS 1 "First-time adoption of MFRS" provides for certain optional exemptions and certain mandatory exceptions for first-time MFRS adopters.

There is no significant impact arising from the transition from FRS to MFRS.

The revised MFRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government-related entities:

– The name of the government and the nature of their relationship;
– The nature and amount of each individually significant transactions; and
– The extent of any collectively significant transactions, qualitatively or quantitatively.

(ii) Financial year beginning on 1 January 2013

- MFRS 9 "Financial instruments - classification and measurement of financial assets and financial liabilities" (effective from 1 January 2013) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

  The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss ("FVTPL"). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in other comprehensive income ("OCI"). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

  The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

  The initial application of this standard will result in the change in classification and measurement of financial assets currently classified as Available-for-Sale.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

(ii) Financial year beginning on 1 January 2013 (continued)

- MFRS 13 “Fair value measurement” (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 “Financial instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones.

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

- Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 July 2011) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets.

  The initial application of this standard will result in additional disclosures in the financial statements.

- Amendment to MFRS 101 “Financial statement, presentation” (effective from 1 July 2012) requires entities to separate items presented in OCI in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

  The initial application of this standard will result in additional disclosures in the financial statements.

2.2 Economic entities in the Group

(a) Subsidiaries

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

Subsidiaries are consolidated using the purchase method of accounting except for certain business combination (as disclosed in 2.3) which were accounted for using the merger method as follows:

– subsidiaries that were consolidated prior to 1 April 2002 in accordance with Malaysian Accounting Standard 2 "Accounting for Acquisitions and Mergers", the generally accepted accounting principles prevailing at that time;

– business combinations consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 that meet the conditions of a merger as set out in FRS 122_{2004} "Business Combinations";

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Economic entities in the Group

(a) Subsidiaries (continued)

- internal group reorganisations, as defined in FRS 122 2004, consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 where:
  - the ultimate shareholders remain the same, and the rights of each such shareholder, relative to the others, are unchanged; and
  - the minorities' share of net assets of the Group is not altered by the transfer.
- business combinations involving entities or businesses under common control with arrangement dates on/after 1 January 2006.

The Group has taken advantage of the exemption provided by FRS 122 2004 and FRS 3 to apply these Standards prospectively. Accordingly, business combinations entered into prior to the respective dates have not been restated to comply with these Standards.

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

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

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

(b) Joint venture company ("JV")

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

2.3 Special Purpose Entities ("SPE")

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

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

The Group has not consolidated BNM Sukuk and CSME since the Group has no power to exercise control over the financial and operating policies in the SPE and it does not obtain economic benefits from its activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Amount due from counterparties and Islamic financing debts

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

As at the statement of financial position date, amounts due from counterparties and Islamic financing debts in respect of mortgage loans, Personal loans and hire purchase and leasing debts are stated at their unpaid principal balances due to the Group. Interest/profit income on amount due from counterparties and Islamic financing debts is recognised on an accrual basis and computed at the respective interest/profit rates based on monthly rest.

2.5 Mortgage assets and hire purchase assets

Mortgage assets and hire purchase assets are acquired by the Group from the originators at fair values. The originator acts as servicer and remits the principal and interest/profit income from the assets to the Group at specified intervals as agreed by both parties.

As at the statement of financial position date, mortgage assets and hire purchase assets are stated at their unpaid principal balances due to the Group and adjusted for unaccreted discount. Interest/profit income on the assets are recognised on an accrual basis and computed at the respective interest/profit rates based on monthly rest. The discount arising from the difference between the purchase price and book value of the mortgage assets and hire purchase assets acquired is accreted to the income statement over the term of the assets using the effective yield method.

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

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

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

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

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

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

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

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Investment in subsidiary and SPE

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

2.8 Property and equipment and depreciation

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

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

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

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

At each statement of financial position date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. The Group's accounting policy on impairment of non-financial assets is reflected in Note 2.9 (b) to the financial statements.

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

2.9 Impairment of assets

(a) Financial assets

(i) Assets carried at amortised cost

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of assets (continued)

(a) Financial assets (continued)

(i) Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(ii) Assets classified as AFS

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised, is removed from equity and recognised in the income statement. If, in the subsequent period, the fair value of a debt instrument classified as AFS investment securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(b) Non-financial assets

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

2.10 Income recognition

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

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

Premium on unsecured bearer bonds, notes and sukuk represents the excess of the issue price over the redemption value of the bonds/Sukuk are accepted to the income statement over the life of the bonds/Sukuk on an effective yield basis. Where the redemption value exceeds the issue price of the bonds/Sukuk, the difference, being the discount is amortised to the income statement over the life of the bonds/sukuk on an effective yield basis.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Income taxes

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

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible 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 taxation is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred taxation asset is realised or the deferred taxation liability is settled.

2.13 Cash and cash equivalents

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

2.14 Offsetting financial instruments

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

2.15 Segment reporting

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

2.16 Derivative financial instruments and hedge accounting

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

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

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

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

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Derivative financial instruments and hedge accounting (continued)

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

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

Cash flow hedge

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

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

2.17 Provisions

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

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

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

2.18 Zakat

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

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

Zakat rates enacted or substantively enacted by the statement of financial position date are used to determine the zakat expense. The rate of zakat on business, as determined by National Fatwa Council for the financial year is 2.5% (2010: 2.5%) of the zakat base. The zakat base of the Company is determined based on the the profit after tax of each company within the group after deducting dividend income and certain non-operating income and expenses. Zakat on business is calculated by multiplying the zakat rate with zakat base. The amount of zakat assessed is recognised as an expense in the year in which it is incurred.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits

(a) Short-term employee benefits

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

(b) Defined contributions plans

The Group contributes to the Employees' Provident Fund ("EPF"), the national defined contribution plan. The contributions to EPF are charged to the income statement in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations in the future. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.20 Intangible assets

(a) Computer software

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

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

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

(b) Service rights to transaction administrator and administrator fees

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 RMBS and IRMBS

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

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

2.22 Share capital

(a) Classification

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

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

(b) Dividends to shareholders of the Company

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

2.23 Functional and presentation currency

Items included in the financial statements of the Group and the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

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

2.24 Financial instruments

(a) Description

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

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

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

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Financial instruments (continued)

(b) Fair value estimation for disclosure purposes

The fair value of publicly traded derivatives and securities is based on quoted market prices at the statement of financial position date.

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

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

2.25 Contingent liabilities and contingent assets

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

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company. The Group and the Company do not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

(a) Fair value of derivatives and AFS investment securities

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

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(b) Impairment of mortgage assets and hire purchase assets

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

(c) Securitisation and SPE

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

(i) the Group will obtain the majority of the benefits of the activities of an SPE;
(ii) the Group retains the majority of the residual ownership risks related to the assets in order to obtain the benefits from its activities;
(iii) the Group has decision-making powers to obtain the majority of the benefits; or
(iv) the activities of the SPE being conducted on behalf of the Group according to the Group's specific business needs so that the Group obtains the benefits from the SPE's operations.

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

(d) Discretionary bonus fee

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

4. RISK MANAGEMENT OBJECTIVE AND POLICIES

Risk Management is an integral part of the Group's business and operations. It encompasses identification, measurement, analysing, controlling, monitoring and reporting of risks on an enterprise-wide basis.

The Group has streamlined risk management according to its business activities, and enhanced key controls to ensure effectiveness of risk management and its independence from risk taking activities.

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

Notes to the Financial Statements

4. RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

4.1 Risk Management Structure

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

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

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

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

4.2 Credit risk management

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

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

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

4.3 Market risk management

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

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

Derivative instruments such as interest rate swaps are also used to manage and hedge market risk exposures against fluctuations in the interest rates.

4. RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

4.4 Liquidity risk management

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

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

The Group's liquidity management process, as carried out within the subsidiary and monitored by related departments, includes:

(a) Managing cash flow mismatch and liquidity gap limits which involves assessing all of the Group's cash inflows against its cash outflows to identify the potential for any net cash shortfalls and the ability of the Group to meet its cash obligations when they fall due;
(b) Matching funding of loan purchases against its expected cash flow, duration and tenor of the funding;
(c) Monitoring the liquidity ratios of the Group against internal requirements;
(d) Managing the concentration and profile of funding by diversification of funding sources.

5. CASH AND SHORT-TERM FUNDS

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Cash and balances with banks and other financial institutions	**50,877**	295	**17**	15
Money at call and deposits placements maturing within one month	**378,124**	117,118	**441**	536
Mudharabah money at call and deposits placements maturing within one month	**50,218**	33,375	**–**	–
	479,219	150,788	**458**	551

6. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed banks	**323,394**	81,722	**688**	350

Notes to the Financial Statements

7. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

(a) Cash flow hedges

The Group has designated a number of IRS as cash flow hedges during the financial year. The total fair value of derivatives included within cash flow hedges at 31 December 2011 was a credit of RM58.3 million (2010: RM44.0 million).

(b) Fair value hedges

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

(c) Net investment hedges

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

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

7. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Group RM'000	2011 Contract/ notional amount	2011 Fair value Assets	2011 Fair value Liabilities	2010 Contract/ notional amount	2010 Fair value Assets	2010 Fair value Liabilities
Derivatives in accounting hedge relationships						
Derivatives designated as cash flow hedges:						
IRS	**435,000**	**–**	**(58,278)**	570,000	–	(44,018)
Derivatives not in accounting hedge relationship						
IRS	**–**	**–**	**–**	320,000	2,848	(2,795)
Total recognised derivative assets/(liabilities)	**435,000**	**–**	**(58,278)**	890,000	2,848	(46,813)

The remaining terms and notional principal amounts of the outstanding IRS of the Group at the statement of financial position date were:

	Group 2011 RM'000	Group 2010 RM'000
Maturing within one year	**25,000**	455,000
One year to three years	**–**	25,000
More than five years	**410,000**	410,000
	435,000	890,000

Notes to the Financial Statements

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

	Group	
	2011	**2010**
	RM'000	**RM'000**
At fair value:		
Malaysian Government securities	**386,962**	291,782
Private debts securities	**320,609**	341,623
Government issued instruments	**522,140**	214,154
BNM negotiable notes	**–**	69,216
Islamic debts securities	**381,459**	415,537
Negotiable instruments of deposits	**153,212**	100,387
Malaysian treasury bills	**–**	6,929
Malaysian Islamic treasury bills	**–**	7,505
Islamic negotiable instruments of deposits	**298,105**	42,461
	2,062,487	1,489,594

The maturity structure of AFS investment securities are as follows:

Maturing within one year	**989,825**	443,119
One year to three years	**395,914**	890,151
Three years to five years	**326,482**	156,324
More than five years	**350,266**	–
	2,062,487	1,489,594

9. AMOUNT DUE FROM COUNTERPARTIES

Relating to:		
Mortgage loans	**3,156,863**	3,887,937
Hire purchase and leasing debts	**345,348**	437,173
Personal loans	**804,833**	–
	4,307,044	4,325,110

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

Maturing within one year	**548,923**	1,210,727
One year to three years	**1,687,575**	1,592,354
Three years to five years	**1,070,544**	1,522,029
More than five years	**1,000,002**	–
	4,307,044	4,325,110

Notes to the Financial Statements

10. ISLAMIC FINANCING DEBTS

	Group 2011 RM'000	Group 2010 RM'000
Relating to:		
Islamic house financing debts	**525,417**	553,644
Islamic hire purchase debts	**3,217,740**	2,587,283
Islamic personal financing	**3,136,478**	3,713,420
	6,879,635	6,854,347

The maturity structure of Islamic financing debts are as follows:

	2011	2010
Maturing within one year	**1,038,705**	702,765
One year to three years	**3,199,533**	1,284,009
Three years to five years	**2,641,397**	3,567,540
More than five years	**–**	1,300,033
	6,879,635	6,854,347

11. MORTGAGE ASSETS - CONVENTIONAL

	2011	2010
Purchase Without Recourse ("PWOR")	**10,510,760**	11,384,572

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

	2011	2010
Maturing within one year	**1,623,330**	1,613,063
One year to three years	**2,147,410**	2,188,906
Three years to five years	**1,825,523**	1,909,785
More than five years	**7,288,837**	8,319,443
	12,885,100	14,031,197
Less:		
Unaccreted discount	**(2,308,406)**	(2,580,691)
Allowance for impairment losses	**(65,934)**	(65,934)
	10,510,760	11,384,572

Notes to the Financial Statements

12. MORTGAGE ASSETS - ISLAMIC

	Group 2011 RM'000	Group 2010 RM'000
Purchase Without Recourse ("PWOR")	**7,434,894**	7,696,191

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

	2011 RM'000	2010 RM'000
Maturing within one year	**912,502**	848,709
One year to three years	**1,198,873**	1,153,802
Three years to five years	**1,129,544**	1,119,160
More than five years	**5,742,327**	6,282,631
	8,983,246	9,404,302
Less:		
Unaccreted discount	**(1,505,109)**	(1,664,868)
Allowance for impairment losses	**(43,243)**	(43,243)
	7,434,894	7,696,191

13. HIRE PURCHASE ASSETS - CONVENTIONAL

	2011 RM'000	2010 RM'000
Purchase Without Recourse ("PWOR")	**52**	761

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

	2011 RM'000	2010 RM'000
Maturing within one year	**68**	740
One year to three years	**–**	48
	68	788
Less:		
Unaccreted discount	**(1)**	(11)
Allowance for impairment losses	**(15)**	(16)
	52	761

Notes to the Financial Statements

14. HIRE PURCHASE ASSETS - ISLAMIC

	Group	
	2011	**2010**
	RM'000	**RM'000**
Purchase Without Recourse ("PWOR")	**21,221**	25,463

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

Maturing within one year	**7,097**	7,614
One year to three years	**12,267**	14,039
Three years to five years	**2,914**	5,068
More than five years	**132**	148
	22,410	26,869
Less:		
Unaccreted discount	**(1,013)**	(1,230)
Allowance for impairment losses	**(176)**	(176)
	21,221	25,463

15. OTHER ASSETS

Mortgage assets repurchased	**30,447**	36,504
Staff loans and financing	**3,439**	4,327
Deposits	**746**	737
Prepayments	**931**	1,024
Prepaid mortgage guarantee fee	**16**	16
Prepaid Wakalah fee	**103**	30
Other receivables	**411**	241
	36,093	42,879

Notes to the Financial Statements

16. PROPERTY AND EQUIPMENT

Group RM'000	**Office equipment**	**Furniture and fittings**	**Motor vehicles**	**Work-in progress**	**Total**
2011					
Cost					
As at 1 January 2011	**4,362**	**4,551**	**617**	**–**	**9,530**
Additions	**70**	**4**	**–**	**–**	**74**
Disposals	**–**	**–**	**(100)**	**–**	**(100)**
As at 31 December 2011	**4,432**	**4,555**	**517**	**–**	**9,504**
Accumulated Depreciation					
As at 1 January 2011	**(2,768)**	**(835)**	**(564)**	**–**	**(4,167)**
Charge for the year	**(619)**	**(457)**	**(50)**	**–**	**(1,126)**
Disposals	**–**	**–**	**100**	**–**	**100**
As at 31 December 2011	**(3,387)**	**(1,292)**	**(514)**	**–**	**(5,193)**
Net book value as at 31 December 2011	**1,045**	**3,263**	**3**	**–**	**4,311**
2010					
Cost					
As at 1 January 2010	4,141	4,502	617	4	9,264
Additions	245	45	–	–	290
Disposal	(24)	–	–	–	(24)
Reclassification	–	4	–	(4)	–
As at 31 December 2010	4,362	4,551	617	–	9,530
Accumulated Depreciation					
As at 1 January 2010	(2,153)	(385)	(473)	–	(3,011)
Charge for the year	(631)	(450)	(91)	–	(1,172)
Disposals	16	–	–	–	16
As at 31 December 2010	(2,768)	(835)	(564)	–	(4,167)
Net book value as at 31 December 2010	1,594	3,716	53	–	5,363

Notes to the Financial Statements

17. INTANGIBLE ASSETS

Group RM'000	Service rights	Computer software	Licenses	Computer software under development	Total
2011					
Cost					
As at 1 January 2011	**16,717**	**11,389**	**1,009**	**–**	**29,115**
Additions	**–**	**480**	**4**	**–**	**484**
As at 31 December 2011	**16,717**	**11,869**	**1,013**	**–**	**29,599**
Accumulated Amortisation					
As at 1 January 2011	**(6,502)**	**(8,154)**	**(516)**	**–**	**(15,172)**
Charge for the year	**(1,204)**	**(1,059)**	**(368)**	**–**	**(2,631)**
As at 31 December 2011	**(7,706)**	**(9,213)**	**(884)**	**–**	**(17,803)**
Net book value as at 31 December 2011	**9,011**	**2,656**	**129**	**–**	**11,796**
2010					
Cost					
As at 1 January 2010	16,717	10,433	967	297	28,414
Additions	–	659	42	–	701
Reclassification	–	297	–	(297)	–
As at 31 December 2010	16,717	11,389	1,009	–	29,115
Accumulated Amortisation					
As at 1 January 2010	(5,298)	(7,186)	(324)	–	(12,808)
Charge for the year	(1,204)	(968)	(192)	–	(2,364)
As at 31 December 2010	(6,502)	(8,154)	(516)	–	(15,172)
Net book value as at 31 December 2010	10,215	3,235	493	–	13,943

Service rights are amortised on a straight line basis over the tenure of RMBS/IRMBS. The remaining amortisation period of the intangible assets ranges from 3 to 16 years (2010: 4 to 17 years).

Notes to the Financial Statements

18. DEFERRED TAXATION

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

	Group		Company	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Deferred taxation assets (before offsetting)	**13,810**	5,170	**–**	–
Deferred taxation liabilities (before offsetting)	**(429,539)**	(368,789)	**–**	(33,335)
Deferred taxation liabilities	**(415,729)**	(363,619)	**–**	(33,335)

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

Group RM'000	**Balance as at 1 January**	**Recognised in income statement**	**Recognised in reserves**	**Balance as at 31 December**
2011				
Deferred taxation assets/(liabilities)				
Accelerated tax depreciation	**(4,787)**	**784**	**–**	**(4,003)**
Unaccreted discount on mortgage assets	**(367,665)**	**(55,383)**	**–**	**(423,048)**
Revaluation of AFS investment securities	**(1,133)**	**–**	**(1,252)**	**(2,385)**
Unrealised losses on revaluation of IRS under cash flow hedge accounting	**9,966**	**–**	**3,602**	**13,568**
Temporary difference relating to guarantee/ Wakalah fees	**–**	**242**	**–**	**242**
Temporary difference relating to accrued interest on deposits and placements	**–**	**(103)**	**–**	**(103)**
	(363,619)	**(54,460)**	**2,350**	**(415,729)**
2010				
Deferred taxation assets/(liabilities)				
Accelerated tax depreciation	(4,622)	(165)	–	(4,787)
Unaccreted discount on mortgage assets	(309,734)	(57,931)	–	(367,665)
Revaluation of AFS investment securities	(282)	–	(851)	(1,133)
Unrealised gains on revaluation of IRS	(1,496)	1,496	–	–
Temporary difference relating to allowance for impairment losses	27,341	(27,341)	–	–
Unrealised losses on revaluation of IRS under cash flow hedge accounting	11,968	(1,375)	(627)	9,966
	(276,825)	(85,316)	(1,478)	(363,619)

Notes to the Financial Statements

18. DEFERRED TAXATION (continued)

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

Company RM'000	Balance as at 1 January	Recognised in income statement	Recognised in reserves	Balance as at 31 December
2011				
Deferred taxation assets/(liabilities)				
Temporary difference relating to dividend receivable from subsidiary company	**(33,335)**	**33,335**	**–**	**–**
	(33,335)	**33,335**	**–**	**–**
2010				
Deferred taxation assets/(liabilities)				
Temporary difference relating to dividend receivable from subsidiary company	–	(33,335)	–	(33,335)
	–	(33,335)	–	(33,335)

19. INVESTMENT IN SUBSIDIARIES

Company	2011 RM'000	2010 RM'000
Investment in subsidiaries:		
Unquoted shares at cost	**4,081,628**	3,981,628

The subsidiaries of the Company are as follows:

Name	Principal activities	Interest in equity held by the company
Cagamas	Consists of purchases of mortgage loans, personal loans and hire purchases and leasing debts from primary lenders approved by Cagamas and the issue of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.	100%

Notes to the Financial Statements

19. INVESTMENT IN SUBSIDIARIES (continued)

Name	Principal activities	Interest in equity held by the company
CMBS	Purchase of mortgage assets and Islamic mortgage assets from the Government of Malaysia ("GOM") and issuance of residential mortgage-backed securities ("RMBS") and Islamic residential mortgage-backed securities ("IRMBS") to finance the purchases of mortgage assets and Islamic mortgage assets.	100%
CSRP	Mortgage guarantee and mortgage indemnity business and other form of credit protection in relation to My First Home Scheme (Skim Rumah Pertamaku) intiated by the GOM.	100%

20. INVESTMENT IN SPECIAL PURPOSE ENTITIES ("SPE")

Company	2011 RM'000	2010 RM'000
Investment in SPE:		
Unquoted shares at cost	–*	–*

* denotes RM4

The SPE of the Company are as follows:

Name	Principal activities	Interest in equity held by the company
BNM Sukuk	The principal activities of the Company are to undertake the issuance of Islamic securities investment, namely BNM Sukuk Ijarah based on Syariah principles to finance the purchase of the beneficial interest of land and building from BNM and, thereafter to lease back the same land and buiding to BNM for the contractual period which is similar to the tenure of the BNM Sukuk Ijarah, and BNM Sukuk Murabahah based on Syariah principles via the issuance of trust Certificates to evidence investors' beneficial interest over commodity assets and its profit, arising from the sale of commodity assets to BNM.	100%
CSME	Securitisation of small and medium enterprise credit facilities via cash or synthetic securitisations or a combination of both.	100%

The results and net assets of BNM Sukuk and CSME were not consolidated with the Company since the Group has no power to exercise control over the financial and operating policies in the SPE and it does not obtain economic benefits from its activities.

Notes to the Financial Statements

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

	2011 RM'000	2010 RM'000
Group		
Share of net assets of a JV	**53,079**	51,852
Company		
Unquoted shares at cost	**50,000**	50,000

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

	2011 RM'000	2010 RM'000
Group		
Assets		
Current assets	**53,350**	52,048
Liabilities		
Current liabilities	**(271)**	(196)
Net assets	**53,079**	51,852
Income	**1,820**	1,602
Expenses	**(337)**	(372)
Profit before taxation	**1,483**	1,230
Taxation and zakat	**(371)**	(308)
Profit after taxation	**1,112**	922

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

Notes to the Financial Statements

22. UNSECURED BEARER BONDS AND NOTES

Group		Year of maturity	2011 Amount outstanding RM'000	2011 Effective interest rate %	2010 Amount outstanding RM'000	2010 Effective interest rate %
(a)	Fixed rate bonds	2011	**–**		480,000	3.912 - 4.350
			–		480,000	
	Add: Interest payable		**–**		4,150	
			–		484,150	
(b)	Floating rate notes	2011	**–**		135,000	2.370 - 2.990
		2012	**25,000**	**3.060**	25,000	3.060
		2013	**180,000**	**3.410**	180,000	3.410
			205,000		340,000	
	Add: Interest payable		**2,846**		3,407	
			207,846		343,407	
(c)	Medium-term notes	2011	**–**		710,000	2.950 - 4.630
		2012	**900,000**	**3.230 - 4.210**	750,000	3.400 - 4.210
		2013	**190,000**	**3.400 - 4.900**	155,000	3.500 - 5.000
		2014	**2,175,000**	**3.480 - 4.660**	2,070,000	4.320 - 4.660
		2015	**255,000**	**3.820 - 5.300**	255,000	3.820 - 5.300
		2016	**1,215,000**	**3.650 - 4.930**	380,000	4.700 - 4.930
		2017	**1,465,000**	**3.980 - 4.640**	1,465,000	3.980 - 4.640
		2018	**150,000**	**3.950 - 5.710**	140,000	5.710
		2019	**840,000**	**4.800 - 5.280**	840,000	4.800 - 5.280
		2020	**185,000**	**4.360 - 6.000**	185,000	4.360 - 6.000
		2021	**315,000**	**4.100 - 5.380**	310,000	5.120 - 5.380
		2022	**360,000**	**4.480 - 4.950**	360,000	4.480 - 4.950
		2023	**150,000**	**4.250 - 6.050**	140,000	6.050
		2024	**425,000**	**5.267 - 5.520**	425,000	5.267 - 5.520
		2025	**5,000**	**4.650**	5,000	4.650
		2026	**10,000**	**4.410**	–	–
		2027	**250,000**	**5.150**	250,000	5.150
		2028	**430,000**	**6.250 - 6.500**	430,000	6.250 - 6.500
		2029	**245,000**	**5.500 - 5.750**	245,000	5.500 - 5.750
			9,565,000		9,115,000	
	Add: Interest payable		**95,175**		96,933	
			9,660,175		9,211,933	
			9,868,021		10,039,490	

22. UNSECURED BEARER BONDS AND NOTES (continued)

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

	2011 RM'000	2010 RM'000
Maturing within one year	**1,023,021**	1,429,490
One year to three years	**2,545,000**	1,110,000
Three years to five years	**1,470,000**	2,325,000
More than five years	**4,830,000**	5,175,000
	9,868,021	10,039,490

(a) Fixed rate bonds

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

(b) Floating rate notes

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

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

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

23. SUKUK

Group	Year of maturity	2011 Amount outstanding RM'000	2011 Effective profit rate %	2010 Amount outstanding RM'000	2010 Effective profit rate %
(a) Bithaman Ajil					
(i) Primary Sukuk	2011	**–**	**–**	240,000	4.050 - 4.160
	2012	**240,000**	**4.150**	240,000	4.150
		240,000		480,000	
(ii) Secondary Sukuk	2011	**–**	**–**	14,930	–
	2012	**4,980**	**–**	4,980	–
		244,980		499,910	
Less: Unamortised deferred expenses		**(1,245)**		(11,995)	
		243,735		487,915	

Notes to the Financial Statements

23. SUKUK (continued)

Group		Year of maturity	2011 Amount outstanding RM'000	2011 Effective profit rate %	2010 Amount outstanding RM'000	2010 Effective profit rate %
(b)	Islamic commercial papers	2011	–		300,000	3.000
			–		300,000	
	Add: Profit payable		–		4,932	
			–		304,932	
(c)	Islamic medium-term notes	2011	–		1,170,000	2.950 - 4.630
		2012	**1,685,000**	**3.230 - 3.900**	1,285,000	3.300 - 3.900
		2013	**3,070,000**	**3.480 - 5.000**	2,930,000	3.410 - 5.000
		2014	**920,000**	**3.480 - 4.660**	290,000	4.000 - 4.660
		2015	**1,455,000**	**3.820 - 5.300**	1,055,000	3.820 - 5.300
		2016	**755,000**	**3.650 - 4.930**	740,000	3.850 - 4.930
		2017	**5,000**	**4.050**	5,000	4.050
		2018	**205,000**	**3.950 - 5.800**	195,000	5.710 - 5.800
		2019	**345,000**	**5.030 - 5.280**	345,000	5.030 - 5.280
		2020	**270,000**	**4.360 - 6.000**	270,000	4.360 - 6.000
		2021	**245,000**	**4.150 - 5.380**	235,000	5.150 - 5.380
		2022	**5,000**	**4.480**	5,000	4.480
		2023	**345,000**	**4.250 - 6.350**	335,000	6.050 - 6.350
		2024	**305,000**	**5.270 - 5.520**	305,000	5.270 - 5.520
		2025	**5,000**	**4.650**	5,000	4.650
		2026	**20,000**	**4.410 - 4.920**	–	–
		2028	**405,000**	**6.250 - 6.500**	405,000	6.250 - 6.500
		2029	**180,000**	**5.500 - 5.750**	180,000	5.500 - 5.750
			10,220,000		9,755,000	
	Add: Profit payable		**121,732**		103,482	
			10,341,732		9,858,482	
			10,585,467		10,651,329	

The maturity structure of the Sukuk are as follows:

	2011 RM'000	2010 RM'000
Maturing within one year	**2,050,467**	1,822,594
One year to three years	**3,990,000**	4,458,735
Three years to five years	**2,210,000**	1,345,000
More than five years	**2,335,000**	3,025,000
	10,585,467	10,651,329

23. SUKUK (continued)

(a) Bithaman Ajil

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

(b) Islamic commercial papers

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

(c) Islamic medium-term notes

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

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

		2011		**2010**	
Group	**Year of maturity**	**Amount outstanding RM'000**	**Effective interest rate %**	**Amount outstanding RM'000**	**Effective interest rate %**
RMBS	2011	**–**		290,000	4.950
	2012	**645,000**	**4.100 - 4.710**	645,000	4.100 - 4.710
	2014	**725,000**	**4.280 - 5.500**	725,000	4.280 - 5.500
	2015	**320,000**	**5.100**	320,000	5.100
	2017	**870,000**	**4.520 - 5.340**	870,000	4.520 - 5.340
	2019	**260,000**	**4.700**	260,000	4.700
	2020	**385,000**	**5.650**	385,000	5.650
	2022	**250,000**	**4.900**	250,000	4.900
	2025	**265,000**	**5.920**	265,000	5.920
	2027	**105,000**	**5.080**	105,000	5.080
		3,825,000		4,115,000	
Add: Interest payable		**17,781**		20,420	
		3,842,781		4,135,420	

Notes to the Financial Statements

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

The maturity structure of the RMBS is as follows:

	2011 RM'000	2010 RM'000
Maturing within one year	**662,781**	310,420
One year to three years	**725,000**	645,000
Three years to five years	**320,000**	1,045,000
More than five years	**2,135,000**	2,135,000
	3,842,781	4,135,420

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's interest is payable quarterly in arrears.

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

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

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

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

		2011		2010	
Group	**Year of maturity**	**Amount outstanding RM'000**	**Effective profit rate %**	**Amount outstanding RM'000**	**Effective profit rate %**
IRMBS	2012	**515,000**	**3.700 - 4.240**	515,000	3.700 - 4.240
	2014	**270,000**	**3.780**	270,000	3.780
	2015	**515,000**	**4.710**	515,000	4.710
	2017	**810,000**	**3.900 - 5.010**	810,000	3.900 - 5.010
	2019	**245,000**	**4.020**	245,000	4.020
	2020	**400,000**	**5.270**	400,000	5.270
	2022	**320,000**	**4.170**	320,000	4.170
	2027	**290,000**	**4.340**	290,000	4.340
		3,365,000		3,365,000	
Add: Profit attributable		**17,798**		17,798	
		3,382,798		3,382,798	

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

The maturity structure of the IRMBS is as follows:

	2011 RM'000	2010 RM'000
Maturing within one year	**532,798**	17,798
One year to three years	**270,000**	515,000
Three years to five years	**515,000**	785,000
More than five years	**2,065,000**	2,065,000
	3,382,798	3,382,798

The IRMBS have the following features:

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

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

(c) The IRMBS are constituted by a Trust Deed made between CMBS and the Trustee, to act for the benefit of the IRMBS holders.

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

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

26. OTHER LIABILITIES

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Provision for zakat	**2,260**	1,785	**–**	–
Amount due to Government	**50,115**	–	**–**	–
Other payables	**11,267**	11,688	**5**	10
	63,642	13,473	**5**	10

Notes to the Financial Statements

27. SHARE CAPITAL

Group and Company

	2011 RM'000	2010 RM'000
Ordinary shares of RM1 each:		
Authorised:		
Balance as at beginning and end of the year	**500,000**	500,000
Issued and fully paid:		
Balance as at beginning and end of the year	**150,000**	150,000

28. RESERVES

(a) *AFS reserves*

This amounts represents the unrealised fair value gains or losses on AFS investment securities.

(b) *Cash flow hedge reserves*

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

29. INTEREST INCOME

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Interest income from:				
Amount due from counterparties relating to:				
Mortgage loans	**181,728**	206,127	**–**	–
Hire purchase assets	**744**	1,072	**–**	–
Mortgage assets	**512,253**	561,263	**–**	–
Mortgage assets repurchased	**1,183**	1,419	**–**	–
AFS investments securities	**50,002**	31,299	**–**	–
Deposits and placements with financial institutions	**19,145**	16,482	**31**	11
	765,055	817,662	**31**	11
Accretion of discount less amortisation of premium (net)	**282,087**	301,791	**–**	–
	1,047,142	1,119,453	**31**	11

Notes to the Financial Statements

30. INTEREST EXPENSE

	Group	
	2011	**2010**
	RM'000	**RM'000**
Interest expense on:		
Fixed rate bonds	**10,109**	37,679
Floating rate notes (FRNs)	**10,170**	5,876
Medium-term notes	**431,274**	422,813
Short-term notes	**–**	4,406
RMBS	**200,533**	226,872
Deposits and placements of financial institutions	**2**	1,050
	652,088	698,696

31. NON-INTEREST (EXPENSE)/INCOME

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net loss on derivatives	**(11,055)**	(15,919)	**–**	–
Other non-operating income	**4,887**	4,268	**–**	–
Gain on disposal of AFS investment securities	**4,850**	1,349	**–**	–
Gain on disposal of property and equipment	**26**	10	**–**	–
Realised loss on hedged IRS	**–**	(107)	**–**	–
Guarantee fee income	**19**	–	**–**	–
Wakalah fee income	**–**	–	**–**	–
Management fee income	**500**	1,250	**500**	1,250
Dividend income	**–**	–	**30,000**	163,335
	(773)	(9,149)	**30,500**	164,585

32. ALLOWANCE FOR IMPAIRMENT LOSSES

No allowance for impairment losses has been made by the Group for the current and previous financial years.

Notes to the Financial Statements

33. PROFIT BEFORE TAXATION AND ZAKAT

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
The following items have been charged in arriving at profit before taxation and zakat:				
Directors' remuneration (Note 34)	**1,186**	889	**–***	–*
Rental of premises	**2,234**	2,234	**–**	–
Hire of equipment	**230**	181	**–**	–
Auditor's remuneration:				
Audit fees	**215**	142	**–***	–*
Depreciation of property and equipment	**1,126**	1,172	**–**	–
Amortisation of intangible assets	**2,631**	2,364	**–**	–
Servicer fee	**3,925**	3,355	**–**	–
Repairs and maintenance	**1,353**	1,222	**–**	–
Donations and sponsorship	**404**	802	**–**	–
Corporate expenses	**624**	515	**–**	–
Travelling	**274**	385	**–**	–
Personnel costs:				
Salary and allowances	**10,755**	10,615	**–**	–
Bonus	**2,790**	4,784	**–**	–
Overtime	**55**	53	**–**	–
Employees Provident Fund and SOCSO	**2,394**	3,462	**–**	–
Insurance	**236**	355	**–**	–

* Directors' remuneration of RM374,000 and auditors's remuneration of RM19,462 (2010: RM309,000 and RM18,020 respectively) for the Company in the financial year was borne by Cagamas.

34. DIRECTORS' REMUNERATION

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

Non-executive Directors:

Dato' Ooi Sang Kuang (Chairman)	
Datuk George Ratilal	
Dato' Charon Wardini Mokhzani	
Dato' Sri Abdul Wahid Omar	
Dato' Mohd Razif Abd Kadir	(Deceased on 8.8.2011)
Tang Wing Chew	(Resigned on 12.8.2011)
Tan Sri Dato' Sri Tay Ah Lek	(Appointed on 12.8.2011)
Cheah Tek Kuang	(Appointed on 12.8.2011)
Marzunisham bin Omar	(Appointed on 12.8.2011)

Notes to the Financial Statements

34. DIRECTORS' REMUNERATION (continued)

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

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Fees	**795**	679	**289**	236
Other remuneration	**391**	210	**85**	73
	1,186	889	**374**	309

35. TAXATION

(a) Tax charge for the financial year

	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Current tax	**92,660**	68,664	**40,989**	7,781
Deferred taxation (Note 18)	**54,460**	85,316	**(33,335)**	33,335
	147,120	153,980	**7,654**	41,116
Current tax:				
Current year	**92,728**	92,917	**40,952**	7,593
(Over)/under provision in prior year	**(68)**	(24,253)	**37**	188
Deferred taxation:				
Origination and reversal of temporary differences	**54,460**	85,316	**(33,335)**	33,335
	147,120	153,980	**7,654**	41,116

(b) Reconciliation of income tax expense

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

	Group 2011 RM'000	Group 2010 RM'000	Company 2011 RM'000	Company 2010 RM'000
Profit before taxation and zakat	**591,488**	610,480	**30,468**	164,438
Tax calculated at Malaysian tax rate of 25% (2010: 25%)	**147,872**	152,620	**7,617**	41,110
Expenses not deductible for tax purposes	**202**	783	**–**	–
Income not subject to tax	**(278)**	(201)	**–**	(182)
Over provision in prior year	**(72)**	(24,253)	**37**	188
Deduction arising from zakat contribution	**(565)**	(425)	**–**	–
Change in taxation basis	**24**	25,598	**–**	–
Expenses allowed for double deduction	**(63)**	(142)	**–**	–
	147,120	153,980	**7,654**	41,116

Notes to the Financial Statements

36. NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM3,879,199,000 of the Group and RM4,132,767,000 of the Company respectively (2010: RM3,465,338,000 and RM4,132,453,000 for the Group and the Company respectively) by 150,000,000 shares of the Group and the Company in issue.

Basic and diluted earnings per share is calculated by dividing the profit for the financial year of RM442,108,000 of the Group and RM22,814,000 of the Company respectively (2010: RM455,663,000 of the Group and RM123,322,000 of the Company respectively) by 150,000,000 shares of the Group and the Company in issue. For the diluted earnings per share calculation, no adjustment has been made to weighted number of ordinary shares in issue as there are no dilutive potential ordinary shares.

37. DIVIDENDS

	Company	
2010 & 2011	**Net per share sen**	**Amount of dividend net of tax RM'000**
Dividends paid are as follows:		
First interim dividend paid	11.25	16,875
Second interim dividend paid	3.75	5,625
	15.00	22,500

38. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) *Related parties and relationships*

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

Related parties	**Relationships**
Cagamas Berhad ("Cagamas")	Subsidiary
Cagamas MBS Berhad ("CMBS")	Subsidiary
Cagamas SRP Berhad ("CSRP")	Subsidiary
BNM Sukuk Berhad ("BNM Sukuk")	Special Purpose Entity ("SPE")
Cagamas SME Berhad ("CSME")	Special Purpose Entity ("SPE")
Cagamas HKMC Berhad ("CHKMC")	Joint venture
Bank Negara Malaysia ("BNM")	Other related party
Key management personnel	Other related party
Entities in which key management personnel have control	Other related party

38. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Related parties and relationships (continued)

BNM is regarded as a related party on the basis of having significant influence.

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

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

(b) Significant related party transactions and balances

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

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

Group RM'000	**Subsidiary company**	**JV**	**Wholly owned SPE of ultimate holding company**	**Other related party**
2011				
Income				
Bank swap premium	–	–	–	541
Transaction administrator and administrator fees	8,540	–	160	93
Management fee	–	500	–	–
Expenses				
FAST* and RENTAS** charges	–	–	–	59
Guarantee and Wakalah fee expense	–	127	–	–
Amount due from				
Bank swap premium	–	–	–	133
Transaction administrator and administrator fees	910	–	36	–
BNM current accounts	–	–	–	30
Reimbursement of operating expenses	2	9	8	290

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

Notes to the Financial Statements

38. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

Group RM'000	Subsidiary company	JV	Wholly owned SPE of ultimate holding company	Other related party
2010				
Income				
Bank swap premium	–	–	–	160
Transaction administrator and administrator fees	9,277	–	158	186
Management fee	–	500	–	–
Expenses				
FAST* and RENTAS** charges	–	–	–	89
Guarantee and Wakalah fee expense	–	382	–	–
Amount due from				
Bank swap premium	–	–	–	132
Transaction administrator and administrator fees	997	–	35	–
BNM current accounts	–	–	–	26
Reimbursement of operating expenses	2	9	–	125

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

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

In addition, the Group's key management personnel received remuneration for services rendered during the financial year. The total compensation paid to the Group's key management personnel was RM5,102,167 (2010: RM6,634,986).

The total remuneration paid to the Directors is disclosed in Note 34 to the financial statements.

39. CAPITAL COMMITMENTS

	Group 2011 RM'000	Group 2010 RM'000
Capital expenditure:		
Authorised and contracted for	**558**	991
Authorised but not contracted for	**4,306**	2,092
Analysed as follows:		
Property and equipment	**454**	806
Computer equipments	**4,410**	2,277

40. LEASE COMMITMENTS

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

	Group 2011 RM'000	Group 2010 RM'000
Maturing within one year	**833**	2,752
One year to three years	**96**	634
	929	3,386

Notes to the Financial Statements

41. MARKET RISK

41.1 Interest/profit rate risk

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

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

Group RM'000 2011	Effective interest/ profit rate %	Within one year	One year to three years	Three years to five years	More than five years	Non-interest/ profit bearing	Total
Cash and short-term funds	3.05	428,385	–	–	–	50,834	479,219
Deposits and placements with financial institutions	3.10	300,672	2,503	20,219	–	–	323,394
AFS investment securities	3.60	964,669	395,914	351,638	350,266	–	2,062,487
Amount due from counterparties	4.82	548,923	1,687,575	1,070,544	1,000,002	–	4,307,044
Islamic financing debts	3.99	1,038,705	3,199,533	2,641,397	–	–	6,879,635
Mortgage assets:							
– Conventional	3.97	1,623,330	2,147,410	1,825,523	7,288,837	(2,374,340)	10,510,760
– Islamic	3.99	912,503	1,198,873	1,129,543	5,742,327	(1,548,352)	7,434,894
Hire purchase assets:							
– Conventional	4.00	68	–	–	–	(16)	52
– Islamic	4.00	7,097	12,267	2,914	132	(1,189)	21,221
Other assets	–	6,328	8,808	6,248	12,502	52,135	86,021
Total assets		5,830,680	8,652,883	7,048,026	14,394,066	(3,820,928)	32,104,727

Notes to the Financial Statements

41. MARKET RISK (continued)

41.1 Interest/profit rate risk (continued)

Group RM'000 2011	**Effective interest/ profit rate %**	**Within one year**	**One year to three years**	**Three years to five years**	**More than five years**	**Non-interest/ profit bearing**	**Total**
Unsecured bearer bonds and notes	**4.58**	**1,032,021**	**2,545,000**	**1,470,000**	**4,830,000**	**–**	**9,868,021**
Sukuk	**4.25**	**2,050,467**	**3,990,000**	**2,210,000**	**2,335,000**	**–**	**10,585,467**
RMBS	**4.94**	**662,781**	**725,000**	**320,000**	**2,135,000**	**–**	**3,842,781**
IRMBS	**4.40**	**532,798**	**270,000**	**515,000**	**2,065,000**	**–**	**3,382,798**
Other liabilities	**–**	**88**	**–**	**–**	**58,189**	**59,142**	**117,419**
Total Liabilities		**4,269,155**	**7,530,000**	**4,515,000**	**11,423,189**	**59,142**	**27,796,486**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**3,890,995**	**3,890,995**
Total liabilities and shareholders' funds		**4,269,155**	**7,530,000**	**4,515,000**	**11,423,189**	**3,950,137**	**31,687,481**
Interest/profit sensitivity gap		**1,561,525**	**1,122,883**	**2,533,026**	**2,970,877**		
Cumulative gap		**1,561,525**	**2,684,408**	**5,217,434**	**8,188,311**		
2010							
Cash and short-term funds	2.75	150,508	–	–	–	280	150,788
Deposits and placements with financial institutions	3.06	81,722	–	–	–	–	81,722
AFS investment securities	3.47	443,119	890,151	156,324	–	–	1,489,594
Amounts due from counterparties	4.68	1,210,727	1,592,354	1,522,029	–	–	4,325,110
Islamic financing debts	4.03	702,765	1,284,009	3,567,540	1,300,033	–	6,854,347
Mortgage assets:							
– Conventional	4.09	1,613,063	2,188,906	1,909,785	8,319,443	(2,646,625)	11,384,572
– Islamic	4.10	848,709	1,153,802	1,119,160	6,282,631	(1,708,111)	7,696,191
Hire purchase assets:							
– Conventional	4.14	740	48	–	–	(27)	761
– Islamic	4.18	7,614	14,039	5,068	148	(1,406)	25,463
Other assets	–	9,751	9,586	7,373	16,313	53,473	96,496
Total assets		5,068,718	7,132,895	8,287,279	15,918,568	(4,302,416)	32,105,044

Notes to the Financial Statements

41. MARKET RISK (continued)

41.1 Interest/profit rate risk (continued)

Group RM'000 2010	Effective interest/ profit rate %	Within one year	One year to three years	Three years to five years	More than five years	Non-interest/ profit bearing	Total
Unsecured bearer bonds and notes	4.66	1,429,490	1,110,000	2,325,000	5,175,000	–	10,039,490
Sukuk	4.24	1,822,594	4,458,735	1,345,000	3,025,000	–	10,651,329
RMBS	4.94	310,420	645,000	1,045,000	2,135,000	–	4,135,420
IRMBS	4.40	17,798	515,000	785,000	2,065,000	–	3,382,798
Other liabilities	–	3,936	305	–	42,572	11,017	57,830
Total Liabilities		3,584,238	6,729,040	5,500,000	12,442,572	11,017	28,266,867
Shareholders' funds	–	–	–	–	–	3,479,280	3,479,280
Total liabilities and shareholders' funds		3,584,238	6,729,040	5,500,000	12,442,572	3,490,297	31,746,147
Interest/profit sensitivity gap		1,484,480	403,855	2,787,279	3,475,996		
Cumulative gap		1,484,480	1,888,335	4,675,614	8,151,610		

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

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

41. MARKET RISK (continued)

41.1 Interest/profit rate risk (continued)

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

Group **RM'000**	**–100 basis points**	**+100 basis points**
2011		
AFS reserve	**(29,821)**	**28,640**
IRS	**31,206**	**(28,770)**
Taxation effects on the above at tax rate of 25%	**(347)**	**32**
Effect on shareholders' fund	**1,038**	**(98)**
As percentage of shareholders' fund	**0.0%**	**0.0%**
2010		
AFS reserve	(20,806)	20,297
IRS	34,507	(31,650)
Taxation effects on the above at tax rate of 25%	(3,425)	2,838
Effect on shareholders' fund	10,276	(8,515)
As percentage of shareholders' fund	0.3%	(0.2)%

42. CREDIT RISK

42.1 Credit risk concentration

The Group's counterparties are mainly the GOM and financial institutions in Malaysia. The financial institutions are governed by the Banking and Financial Institutions Act, 1989 and the Islamic Banking Act, 1983 and are subject to periodic review by the BNM. The following tables summarise the Group's maximum exposure to credit risk by counterparty or customer or the industry in which they are engaged as at the statement of financial position date:

42. CREDIT RISK (continued)

42.1 Credit risk concentration (continued)

Group RM'000	Cash and short-term funds	Deposits and placement with financial institutions	AFS investment securities	Amount due from counter parties	Islamic financing debts	Mortgage assets-Conventional	Mortgage assets-Islamic	Hire purchase assets-Conventional	Hire purchase assets-Islamic	Other assets	Total
2011											
Government bodies	**–**	**–**	**1,187,085**	**–**	**–**	**–**	**–**	**–**	**–**	**30,737**	**1,217,822**
Financial Institutions:											
Commercial banks	**479,219**	**323,394**	**636,063**	**3,883,385**	**6,879,635**	**–**	**–**	**–**	**–**	**133**	**12,201,829**
Investment banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Communications, electricity, gas and water	**–**	**–**	**81,111**	**82,702**	**–**	**–**	**–**	**–**	**–**	**–**	**163,813**
Transportation	**–**	**–**	**25,516**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**25,516**
Leasing	**–**	**–**	**–**	**340,957**	**–**	**–**	**–**	**–**	**–**	**–**	**340,957**
Individual	**–**	**–**	**–**	**–**	**–**	**10,510,760**	**7,434,894**	**52**	**21,221**	**–**	**17,966,927**
Others	**–**	**–**	**132,712**	**–**	**–**	**–**	**–**	**–**	**–**	**56,201**	**188,913**
Total	**479,219**	**323,394**	**2,062,487**	**4,307,044**	**6,879,635**	**10,510,760**	**7,434,894**	**52**	**21,221**	**87,071**	**32,105,777**
2010											
Government bodies	–	–	966,628	–	–	–	–	–	–	36,629	1,003,257
Financial Institutions:											
Commercial banks	96,330	81,722	211,336	3,838,439	6,854,347	–	–	–	–	2,980	11,085,154
Investment banks	54,458	–	–	–	–	–	–	–	–	–	54,458
Communications, electricity, gas and water	–	–	101,404	100,116	–	–	–	–	–	–	201,520
Transportation	–	–	26,347	19,234	–	–	–	–	–	–	45,581
Leasing	–	–	–	367,321	–	–	–	–	–	–	367,321
Individual	–	–	–	–	–	11,384,572	7,696,191	761	25,463	–	19,106,987
Others	–	–	183,879	–	–	–	–	–	–	56,887	240,766
Total	150,788	81,722	1,489,594	4,325,110	6,854,347	11,384,572	7,696,191	761	25,463	96,496	32,105,044

Notes to the Financial Statements

42. CREDIT RISK (continued)

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

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

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

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

Credit risk loans comprise amount due from counterparties, Islamic financing debts, mortgage assets and hire purchase assets which are due more than 90 days. The coverage ratio is calculated in reference to total impairment allowance and the carrying value (before impairment) of credit risk loans.

Group RM'000	Neither past due nor impaired	Past due but not individually impaired	Total	Impairment allowance	Total carrying value	Credit risk loan	Credit ratio
2011							**%**
Amount due from counterparties	**4,307,044**	**–**	**4,307,044**	**–**	**4,307,044**	**–**	**–**
Islamic financing debts	**6,879,635**	**–**	**6,879,635**	**–**	**6,879,635**	**–**	**–**
Mortgage assets:							
– Conventional	**10,463,715**	**112,979**	**10,576,694**	**65,934**	**10,510,760**	**112,979**	**58**
– Islamic	**7,417,008**	**61,129**	**7,478,137**	**43,243**	**7,434,894**	**61,129**	**71**
Hire purchase assets:							
– Conventional	**61**	**7**	**68**	**16**	**52**	**7**	**>100**
– Islamic	**21,236**	**161**	**21,397**	**176**	**21,221**	**161**	**>100**
	29,088,699	**174,276**	**29,262,975**	**109,369**	**29,153,606**	**174,276**	
2010							
Amount due from counterparties	4,325,110	–	4,325,110	–	4,325,110	–	–
Islamic financing debts	6,854,347	–	6,854,347	–	6,854,347	–	–
Mortgage assets:							
– Conventional	11,329,948	120,558	11,450,506	65,934	11,384,572	120,558	55
– Islamic	7,686,612	52,822	7,739,434	43,243	7,696,191	52,822	82
Hire purchase assets:							
– Conventional	775	2	777	16	761	2	>100
– Islamic	25,347	292	25,639	176	25,463	292	60
	30,222,139	173,674	30,395,813	109,369	30,286,444	173,674	

Notes to the Financial Statements

42. CREDIT RISK (continued)

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

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

Group RM'000	2011 Strong	2011 Total	2010 Strong	2010 Total
Amount due from counterparties	**4,307,044**	**4,307,044**	4,325,110	4,325,110
Islamic financing debts	**6,879,635**	**6,879,635**	6,854,347	6,854,347
Mortgage assets:				
– Conventional	**10,463,715**	**10,463,715**	11,329,948	11,329,948
– Islamic	**7,417,008**	**7,417,008**	7,686,612	7,686,612
Hire purchase assets:				
– Conventional	**61**	**61**	775	775
– Islamic	**21,236**	**21,236**	25,347	25,347
	29,088,699	**29,088,699**	30,222,139	30,222,139

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

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

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

Group RM'000	91 to 120 days	121 to 150 days	151 to 180 days	Over 180 days	Total
2011					
Mortgage assets:					
– Conventional	**15,326**	**10,526**	**6,971**	**80,156**	**112,979**
– Islamic	**6,851**	**4,847**	**5,941**	**43,490**	**61,129**
Hire purchase assets:					
– Conventional	**–**	**–**	**4**	**3**	**7**
– Islamic	**35**	**28**	**–**	**98**	**161**
	22,212	**15,401**	**12,916**	**123,747**	**174,276**

42. CREDIT RISK (continued)

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

Group RM'000	91 to 120 days	121 to 150 days	151 to 180 days	Over 180 days	Total
2010					
Mortgage assets:					
– Conventional	20,158	14,374	8,378	77,648	120,558
– Islamic	8,071	4,075	6,581	34,095	52,822
Hire purchase assets:					
– Conventional	–	–	2	–	2
– Islamic	–	172	41	79	292
	28,229	18,621	15,002	111,822	173,674

For the purpose of this analysis, an asset is considered past due and included above when payment due under strict contractual terms is received late or missed. The amount included is either the entire financial assets, not just the payment, of both principal and interest, overdue on Purchase-Without-Recourse ("PWOR") assets. This may result from administrative delays on the side of the borrower leading to assets being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary.

The impairment allowance on such loans is calculated on a collective, not individual basis as this reflects homogeneous nature of the assets, which allows statistical techniques to be used, rather than individual assessments.

For the financial year ended 31 December 2011, the Group has deemed it impracticable to disclose the financial effect of collateral for its mortgage assets and hire purchases assets.

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

	2010 & 2011			
Group RM'000	Balance as at 1 January	Provision made	Write back of provision	Balance as at 31 December
Mortgage assets:				
– Conventional	65,934	–	–	65,934
– Islamic	43,243	–	–	43,243
Hire purchase assets:				
– Conventional	16	–	–	16
– Islamic	176	–	–	176
	109,369	–	–	109,369

Notes to the Financial Statements

42. CREDIT RISK (continued)

42.3 AFS investment securities

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

Group RM'000	Investment Grade GOM	AAA	AA1 to AA2	Total
2011				
Malaysian Government securities	**386,962**	**–**	**–**	**386,962**
Government-issued instruments	**522,140**	**–**	**–**	**522,140**
Private debts securities	**–**	**132,713**	**187,896**	**320,609**
Negotiable instruments of deposit	**–**	**76,594**	**76,618**	**153,212**
Islamic negotiable instruments of deposit	**–**	**298,105**	**–**	**298,105**
Islamic private debts securities	**–**	**356,068**	**25,391**	**381,459**
	909,102	**863,480**	**289,905**	**2,062,487**
2010				
Malaysian Government securities	291,782	–	–	291,782
Government-issued instruments	214,154	–	–	214,154
Private debts securities	–	163,376	178,247	341,623
Negotiable instruments of deposit	–	50,014	50,373	100,387
Islamic negotiable instruments of deposit	–	42,461	–	42,461
Islamic private debts securities	–	415,537	–	415,537
BNM negotiable notes	69,216	–	–	69,216
Malaysian treasury bills	6,929	–	–	6,929
Malaysian Islamic treasury bills	7,505	–	–	7,505
	589,586	671,388	228,620	1,489,594

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

42.4 Amount due from related company, SPE and holding company

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

43. LIQUIDITY RISK

43.1 Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification of debt portfolios. This involves managing market access in order to widen sources of funding to avoid over dependence on a single funding source as well as to minimize cost of funding.

43.2 Liquidity Pool

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

Group RM'000	Cash and deposit in licensed financial institutions	Derivative financial instruments	AFS investment securities	Mortgage assets	Islamic mortgage assets	Other available liquidity	Total
As at 31 December 2011	**802,613**	**–**	**2,062,487**	**10,510,760**	**7,434,894**	**11,243,972**	**32,054,726**
As at 31 December 2010	232,510	2,848	1,489,594	11,384,572	7,696,191	11,248,551	32,054,266

Notes to the Financial Statements

43. LIQUIDITY RISK (continued)

43.3 Contractual maturity of financial liabilities

The tables below present the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are contractual undiscounted cash flow, whereas the Group manages the liquidity risk based on a different basis.

	Remaining contractual maturities					
Group RM'000	**On demand up to 1 month**	**One to three months**	**Three to twelve months**	**One to five years**	**Over five years**	**Total**
2011						
Liabilities						
Unsecured bearer bonds and notes	**14,564**	**219,569**	**1,135,574**	**5,420,955**	**6,151,098**	**12,941,760**
Sukuk	**29,190**	**624,444**	**1,688,105**	**6,958,692**	**3,270,651**	**12,571,082**
RMBS	**4,783**	**42,635**	**783,377**	**1,598,080**	**2,560,815**	**4,989,690**
IRMBS	**–**	**37,284**	**618,508**	**1,239,111**	**2,397,125**	**4,292,028**
Unexpired financial guarantees	**1,684**	**–**	**–**	**–**	**–**	**1,684**
Other liabilities	**5,338**	**–**	**–**	**–**	**51,524**	**56,862**
Total liabilities	**55,559**	**923,932**	**4,225,564**	**15,216,838**	**14,431,213**	**34,853,106**
Assets held for managing liquidity risk	**1,097,966**	**1,230,521**	**4,144,603**	**16,558,493**	**18,515,948**	**41,547,531**
2010						
Liabilities						
Unsecured bearer bonds and notes	149	207,776	1,147,420	3,745,651	5,663,018	10,764,014
Sukuk	215,702	510,584	1,411,582	6,899,361	4,106,527	13,143,756
RMBS	318,912	42,635	442,043	2,319,630	2,670,059	5,793,279
IRMBS	17,798	37,090	110,832	1,801,903	2,490,125	4,457,748
Other liabilities	106,560	–	–	–	1,675	108,235
Total liabilities	659,121	798,085	3,111,877	14,766,545	14,931,404	34,267,032
Assets held for managing liquidity risk	1,041,111	1,183,518	3,452,986	16,161,760	20,104,783	41,944,158

43. LIQUIDITY RISK (continued)

43.4 Derivatives liabilities

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

The following table analyses the subsidiaries' derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of all derivatives. The amounts disclosed in the table below are the contractual undiscounted cash flows.

Group RM'000	On demand up to 1 month	One to three months	Three to twelve months	One to five years	Over five years	Total
2011						
Derivatives held for hedging - IRS	**–**	**(4,540)**	**(4,491)**	**(38,622)**	**(17,555)**	**(65,208)**
2010						
Derivatives held for hedging - IRS	(3,200)	(5,536)	(4,621)	(30,892)	(6,715)	(50,964)

44. 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 arms length transaction. The information presented herein represents the estimates of fair values as at the date of the statement of financial position.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market values are not available, fair values are estimated based on a number of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values. 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 FRS7, which requires the fair value information to be disclosed.

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

Notes to the Financial Statements

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

44.1 Fair value of financial instruments

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

Group RM'000	2011 Carrying value	 Fair value	2010 Carrying value	 Fair value
Assets				
Amount due from counterparties	**4,307,044**	**4,225,749**	4,325,110	4,331,896
Islamic financing debts	**6,879,635**	**6,933,983**	6,854,347	6,883,641
Mortgage assets:				
– Conventional	**10,510,760**	**11,582,348**	11,384,572	12,135,566
– Islamic	**7,434,894**	**7,951,609**	7,696,191	8,045,000
Hire purchase assets:				
– Conventional	**52**	**75**	761	758
– Islamic	**21,221**	**22,586**	25,463	25,506
	29,153,606	**30,716,350**	30,286,444	31,422,367
Liabilities				
Unsecured bearer bonds and notes	**9,688,021**	**9,877,465**	10,039,490	10,439,339
Sukuk	**10,585,467**	**10,742,244**	10,651,329	10,792,463
RMBS	**3,842,781**	**4,036,711**	4,135,420	4,280,168
IRMBS	**3,382,798**	**3,442,405**	3,382,798	3,384,279
	27,499,067	**28,098,825**	28,209,037	28,896,249

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

(a) *Cash and short-term funds*

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

(b) *Amounts due from counterparties*

The fair value of the fixed rate assets portfolio is based on the present value of estimated future cash flows discounted at the prevailing market rates of loans with similar credit risk and maturities at the statement of financial position 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.

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

44.1 Fair value of financial instruments (continued)

(c) Mortgage assets and hire purchase assets

The fair value of the mortgage assets and hire purchase assets are derived at using the present value of future cash flows discounted based on the mortgage assets market yield to maturity at the date of the statement of financial position.

(d) AFS investment securities

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

(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 prevailing market rates of loans with similar credit risk and maturities at the date of the statement of financial position.

(f) Other financial assets

Other financial assets include other debtors and deposits. The fair value of other financial assets is estimated at their carrying amount.

(g) Unsecured bearer bonds, notes and Sukuk

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

(h) Amount due (to)/from subsidiary companies, JV and SPE

The estimated fair value of amount due (to)/from a related 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 creditors and accruals. The fair value of other financial liabilities is estimated at their carrying amount.

(k) Derivatives financial instruments

The estimated fair value of the IRS is based on the estimated future cash flows discounted using the market interest rate at the statement of financial position date.

Notes to the Financial Statements

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

44.2 Fair value hierarchy

Comparatives figures are not presented for 31 December 2010 by virtue of paragraph 44G of FRS 7.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

– Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

– Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

– Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total**
2011				
Assets				
AFS investment securities	**–**	**2,062,487**	**–**	**2,062,487**
Liabilities				
Derivative financial instruments	**–**	**58,278**	**–**	**58,278**

45. SEGMENT REPORTING

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

(a) *Purchase With Recourse ("PWR")*

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

(b) *Purchase Without Recourse ("PWOR")*

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

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

There were no changes in the reportable segments during the year.

Notes to the Financial Statements

45. SEGMENT REPORTING (continued)

Group RM'000	Purchase with recourse	Purchase without recourse	Mortgage guarantee	Total
2011				
External revenue	**486,469**	**1,113,951**	**3,071**	**1,603,491**
External interest/profit expense	**369,891**	**329,994**	**–**	**699,885**
Profit before taxation and zakat	**90,472**	**498,118**	**2,898**	**591,488**
Zakat	**(1,084)**	**(1,176)**	**–**	**(2,260)**
Taxation	**(22,111)**	**(124,261)**	**(748)**	**(147,120)**
Net profit by segment	**67,277**	**372,681**	**2,150**	**442,108**
Segment assets	**12,163,834**	**19,870,381**	**103,647**	**32,137,862**
Segment liabilities	**16,480,652**	**11,764,727**	**1,488**	**28,246,867**
Other information:				
Capital expenditure	**299**	**259**	**–**	**558**
Depreciation and amortisation	**2,014**	**1,743**	**–**	**3,757**
2010				
External revenue	219,780	899,673	–	1,119,453
External interest/profit expense	(111,310)	(587,386)	–	(698,696)
Profit before taxation and zakat	100,562	509,918	–	610,480
Zakat	(604)	(232)	–	(836)
Taxation	(26,732)	(127,248)	–	(153,980)
Net profit by segment	73,226	382,438	–	455,664
Segment assets	11,667,020	20,463,645	–	32,130,665
Segment liabilities	9,858,596	18,792,789	–	28,651,385
Other information:				
Capital expenditure	508	483	–	991
Depreciation and amortisation	1,196	2,340	–	3,536

Notes to the Financial Statements

46. ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE

ASSETS AND LIABILITIES

RM'000	Cagamas Holdings Berhad and Cagamas	CMBS	CSRP	Consolidation adjustments	Total
2011					
ASSETS					
Cash and short-term funds	355,757	67,693	55,769	–	479,219
Deposits and placements with financial institutions	688	299,984	22,722	–	323,394
Derivative financial instruments	–	–	–	–	–
AFS investment securities	596,599	1,440,732	25,156	–	2,062,487
Amounts due from counterparties	4,307,044	–	–	–	4,307,044
Islamic financing debts	6,879,635	–	–	–	6,879,635
Mortgage assets:					
– Conventional	6,578,196	3,932,564	–	–	10,510,760
– Islamic	3,918,909	3,515,985	–	–	7,434,894
Hire purchase assets:					
– Conventional	52	–	–	–	52
– Islamic	21,221	–	–	–	21,221
Amount due from SPE	67	–	–	–	67
Other assets	5,646	30,447	–	–	36,093
Property and equipment	4,311	–	–	–	4,311
Intangible assets	11,796	–	–	–	11,796
Deferred taxation	13,810	–	–	–	13,810
Investment in subsidiaries	4,081,628	–	–	(4,081,628)	–
Investment in SPE	–	–	–	–	–
Amount due from holding company	2	–	–	(2)	–
Amount due from subsidiary company	910	–	–	(910)	–
Interest in a JV	50,000	–	–	3,079	53,079
TOTAL ASSETS	26,826,271	9,287,405	103,647		32,137,862
LIABILITIES					
Unsecured bearer bonds and notes	9,868,021	–	–	–	9,868,021
Sukuk	10,585,467	–	–	–	10,585,467
Derivative financial instruments	58,278	–	–	–	58,278
RMBS	–	3,842,781	–	–	3,842,781
IRMBS	–	3,382,798	–	–	3,382,798
Deferred taxation	4,616	425,059	(136)	–	429,539
Deferred guarantee fee income	–	–	748	–	748
Deferred Wakalah fee income	–	–	219	–	219
Provision for taxation	12,279	2,506	589	–	15,374
Other liabilities	63,468	106	68	–	63,642
Amount due to a subsidiary/related company	2	910	–	(912)	–
TOTAL LIABILITIES	20,592,131	7,654,160	1,488		28,246,867

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

ASSETS AND LIABILITIES (continued)

RM'000	Cagamas Holdings Berhad and Cagamas	CMBS	CSRP	Consolidation adjustments	Total
2010					
ASSETS					
Cash and short-term funds	114,273	36,515	–	–	150,788
Deposits and placements with financial institutions	350	81,372	–	–	81,722
Derivative financial instruments	2,848	–	–	–	2,848
AFS investment securities	350,383	1,139,211	–	–	1,489,594
Amounts due from counterparties	4,325,110	–	–	–	4,325,110
Islamic financing debts	6,854,347	–	–	–	6,854,347
Mortgage assets:					
– Conventional	7,074,638	4,309,934	–	–	11,384,572
– Islamic	3,992,999	3,703,192	–	–	7,696,191
Hire purchase assets:					
– Conventional	761	–	–	–	761
– Islamic	25,463	–	–	–	25,463
Amount due from SPE	1,059	–	–	(997)	62
Amount due from JV	–	–	–	–	–
Other assets	6,375	36,504	–	–	42,879
Property and equipment	5,363	–	–	–	5,363
Intangible assets	13,943	–	–	–	13,943
Deferred taxation	5,170	–	–	–	5,170
Investment in subsidiary companies	3,981,628	–	–	(3,981,628)	–
Investment in SPE	–	–	–	–	–
Amount due from holding company	2	–	–	(2)	–
Amount due from subsidiaries	133,335	–	–	(133,335)	–
Interest in a JV	50,000	–	–	1,852	51,852
TOTAL ASSETS	26,938,047	9,306,728	–		32,130,665
LIABILITIES					
Unsecured bearer bonds and notes	10,039,490	–	–	–	10,039,490
Sukuk	10,651,329	–	–	–	10,651,329
Derivative financial instruments	46,813	–	–	–	46,813
RMBS	–	4,135,420	–	–	4,135,420
IRMBS	–	3,382,798	–	–	3,382,798
Deferred taxation	–	368,789	–	–	368,789
Provision for taxation	46,585	22	–	(33,335)	13,272
Other liabilities	13,362	111	–	–	13,473
Amount due to a subsidiary/related company	2	997	–	(999)	–
TOTAL LIABILITIES	20,797,581	7,888,137	–		28,651,384

Notes to the Financial Statements

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

INCOME STATEMENTS

RM'000	Cagamas Holdings Berhad and Cagamas	CMBS	CSRP	Consolidation adjustments	Total
2011					
Interest income	**681,957**	**362,114**	**3,071**	**–**	**1,047,142**
Interest expense	**(451,555)**	**(200,533)**	**–**	**–**	**(652,088)**
Income from Islamic operations	**107,486**	**130,591**	**6**	**(3,879)**	**234,204**
Non-interest income/(expenses)	**33,842**	**39**	**20**	**(34,674)**	**(773)**
	371,730	**292,211**	**3,097**		**628,485**
Administration and general expenses	**(18,978)**	**(9,464)**	**(199)**	**8,552**	**(20,089)**
Personnel cost	**(18,020)**	**–**	**–**	**–**	**(18,020)**
Share of profit in a JV company	**–**	**–**	**–**	**1,112**	**1,112**
PROFIT BEFORE TAXATION AND ZAKAT	**334,732**	**282,747**	**2,898**		**591,488**
Zakat	**(2,260)**	**–**	**–**	**–**	**(2,260)**
Taxation	**(83,213)**	**(70,659)**	**(748)**	**7,500**	**(147,120)**
PROFIT FOR THE FINANCIAL YEAR	**249,259**	**212,088**	**2,150**		**442,108**
2010					
Interest income	728,943	390,510	–	–	1,119,453
Interest expense	(471,824)	(226,872)	–	–	(698,696)
Income from Islamic operations	112,217	130,837	–	(4,108)	238,946
Non-interest income/(expenses)	159,242	114	–	(168,505)	(9,149)
	528,578	294,589	–		650,554
Administration and general expenses	(19,296)	(10,277)	–	9,278	(20,295)
Personnel cost	(20,701)	–	–	–	(20,701)
Share of profit in a JV company	–	–	–	922	922
PROFIT BEFORE TAXATION AND ZAKAT	488,581	284,312	–		610,480
Zakat	(836)	–	–	–	(836)
Taxation	(123,743)	(71,072)	–	40,835	(153,980)
PROFIT FOR THE FINANCIAL YEAR	364,002	213,240	–		455,664

47. CAPITAL ADEQUACY

The Group and the Company's objectives when managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are:

(a) To align with industry best practices and benchmark set by the regulators;

(b) To safeguard the Group and the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefit to other stakeholders; and

(c) To maintain a strong capital base to support the development of its business.

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

Capital adequacy and the use of regulatory capital are monitored by the Group and the Company's management, employing techniques based on the guidelines developed by the Basel Committee and as implemented by BNM, for supervisory purposes.

The Group maintains a ratio of total regulatory capital to its risk-weighted assets which is computed in accordance with the BNM revised Risk-Weighted Capital Adequacy Framework (RWCA - Basel II).

The regulatory capital comprise of two tiers:

(a) Tier 1 capital: share capital (net of any book values of treasury shares) and other reserves which comprise retained earnings and reserves created by appropriations of retained earnings; and

(b) Tier 2 capital : comprise collective impairment allowances on mortgage assets and hire purchase assets and unrealised gains arising from fair valuation of financial instruments held as AFS.

Core capital ratio refers to the ratio of Tier 1 capital to risk-weighted assets. Risk-weighted capital ratio is the ratio of total capital base to risk-weighted assets.

	Group	
	2011	**2010**
	RM'000	**RM'000**
The capital adequacy ratios are as follows:		
Tier I capital		
Paid up capital	**150,000**	150,000
Other reserves	**3,774,369**	3,354,761
	3,924,369	3,504,761
Deferred tax liabilities	**415,729**	363,619
Total Tier I capital	**4,340,098**	3,868,380

Notes to the Financial Statements

47. CAPITAL ADEQUACY (continued)

	Group 2011 RM'000	Group 2010 RM'000
The capital adequacy ratios are as follows: (continued)		
Tier II capital		
Allowance for impairment losses	**109,369**	109,369
Total Tier II capital	**109,369**	109,369
Total capital base	**4,449,467**	3,977,749
Capital ratios:		
Core*	**34.8%**	26.0%
Risk-weighted*	**35.7%**	26.8%
Breakdown of risk-weighted assets in the various risk categories is as follows:		
Credit risk	**11,239,208**	–
Operational risk	**1,237,674**	–
Total risk-weighted assets*	**12,476,882**	–
Breakdown of risk-weighted assets in the various risk-weight is as follows:		
0%	**–**	660,783
10%	**–**	26,176
20%	**–**	11,473,049
50%	**–**	23,361,088
100%	**–**	885,826
	–	36,406,922
Total risk-weighted assets*	**–**	14,863,598

* Computation using Basel II (Pillar 1) for 2011 and Basel I for 2010

48. ISLAMIC OPERATIONS

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	Group 2011 RM'000	Group 2010 RM'000
ASSETS			
Cash and short-term funds	(a)	**66,470**	48,200
Deposits and placements with financial institutions	(b)	**30,626**	–
AFS investment securities	(c)	**741,797**	414,953
Financing debts	(d)	**6,879,635**	6,854,347
Mortgage assets	(e)	**7,431,303**	7,696,191
Hire purchase assets	(f)	**9,930**	6,689
Deferred taxation		**55**	–
Other assets and prepayments		**289,176**	293,732
TOTAL ASSETS		**15,448,992**	15,314,112
LIABILITIES			
Sukuk	(g)	**10,585,467**	10,651,329
IRMBS	(h)	**3,382,798**	3,382,798
Deferred taxation		**180,629**	157,152
Provision for taxation		**2,541**	–
Other liabilities	(i)	**10,624**	8,901
TOTAL LIABILITIES		**14,162,059**	14,200,180
ISLAMIC OPERATIONS' FUNDS		**1,286,933**	1,113,932
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		**15,448,992**	15,314,112

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
Total income attributable		**830,988**	811,646
Income attributable to the Sukuk holders	(j)	**(596,784)**	(572,700)
Total net income	(k)	**234,204**	238,946
Administration and general expenses		**(2,721)**	(2,875)
PROFIT BEFORE TAXATION AND ZAKAT		**231,483**	236,071
Zakat		**(2,260)**	(836)
Taxation		**(57,824)**	(63,734)
PROFIT FOR THE FINANCIAL YEAR		**171,399**	171,501

Notes to the Financial Statements

48. ISLAMIC OPERATIONS (continued)

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Group 2011 RM'000	Group 2010 RM'000
Profit for the financial year	**171,399**	171,501
Other comprehensive income:		
AFS investment securities:		
– Net gain on fair value changes before taxation	**2,137**	138
– Deferred taxation	**(535)**	(38)
Other comprehensive income for the financial year, net of taxation	**1,602**	100
Total comprehensive income for the financial year	**173,001**	171,601

STATEMENT OF CHANGES IN ISLAMIC OPERATIONS' FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

Group RM'000	Allocated capital funds	AFS reserve	Retained profits	Total
2011				
Balance as at 1 January 2011	**294,159**	**846**	**818,927**	**1,113,932**
Profit for the financial year	**–**	**–**	**171,399**	**171,399**
Other comprehensive income	**–**	**1,602**	**–**	**1,602**
Total comprehensive income for the financial year	**–**	**1,602**	**171,399**	**173,001**
Balance as at 31 December 2011	**294,159**	**2,448**	**990,326**	**1,286,933**
2010				
Balance as at 1 January 2010	294,159	746	647,426	942,331
Profit for the financial year	–	–	171,501	171,501
Other comprehensive income	–	100	–	100
Total comprehensive income for the financial year	–	100	171,501	171,601
Balance as at 31 December 2010	294,159	846	818,927	1,113,932

48. ISLAMIC OPERATIONS (continued)

STATEMENT OF CASH FLOW FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	Group 2011 RM'000	Group 2010 RM'000
OPERATING ACTIVITIES			
Profit for the financial year		**171,399**	171,501
Adjustments for investment items and items not involving the movement of cash and cash equivalents:			
Accretion of discount on debt securities		**(2,486)**	(1,184)
Accretion of discount on mortgage assets		**(179,100)**	(188,845)
Accretion of discount on hire purchase assets		**(2,170)**	(354)
Accretion of discount on commercial papers		**–**	2,377
Income from debt securities		**(187,598)**	(190,315)
Income from operations		**(463,259)**	(432,348)
Profit attributable to Sukuk holders		**596,717**	569,752
Gain on disposal of AFS investment Securities		**(99)**	–
Amortisation of premium less accretion of discount on AFS investment securities		**27**	709
Wakalah fee expense		**108**	175
Taxation		**61,245**	60,681
Zakat		**2,260**	836
Operating loss before working capital changes		**(2,956)**	(7,015)
Increase in financing debts		**(18,730)**	(2,275,815)
Decrease in mortgage assets		**438,667**	465,953
Increase in hire purchase assets		**(673)**	(6,335)
(Increase)/decrease in other assets and prepayments		**(374)**	7,425
(Decrease)/increase in Sukuk		**(79,180)**	1,470,505
Decrease in IRMBS		**–**	(545,000)
Decrease in other liabilities		**(479)**	(7,850)
Cash generated from/(utilised in) operations		**336,275**	(898,132)
Income received from assets		**648,394**	615,260
Wakalah fee paid		**(108)**	–
Profit paid to Sukuk holders		**(583,399)**	(547,964)
Payment of taxation		**(28,661)**	(26,286)
Payment of zakat		**(1,785)**	(1,702)
Net cash generated from/(utilised in) operating activities		**370,716**	(858,824)

Notes to the Financial Statements

48. ISLAMIC OPERATIONS (continued)

STATEMENT OF CASH FLOW FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (continued)

	Note	Group 2011 RM'000	Group 2010 RM'000
INVESTING ACTIVITIES			
Purchase of AFS investments securities		**(916,807)**	(872,230)
Income received from debt securities		**888**	–
Sale of AFS investment securities		**594,099**	1,335,070
Income received from AFS investment securities		**–**	175
Net cash (utilised in)/generated from investing activities		**(321,820)**	463,015
Net increase/(decrease) in cash and cash equivalents		**48,896**	(395,809)
Cash and cash equivalents as at beginning of the financial year		**48,200**	444,009
Cash and cash equivalents as at end of the financial year		**97,096**	48,200
Analysis of cash and cash equivalents:			
Cash and short-term funds	(a)	**66,470**	48,200
Deposits and placements with financial institutions	(b)	**30,626**	–
		97,096	48,200

(a) CASH AND SHORT-TERM FUNDS

	2011 RM'000	2010 RM'000
Cash and bank balances with banks and other financial institutions	**110**	47
Mudharabah money at call and deposit placements maturing within one month	**66,360**	48,153
	66,470	48,200

(b) DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2011 RM'000	2010 RM'000
Licensed banks	**30,626**	–

48. ISLAMIC OPERATIONS (continued)

(c) AFS INVESTMENT SECURITIES

	Group 2011 RM'000	Group 2010 RM'000
At fair value:		
Malaysian Government investment issues	**264,119**	147,966
Negotiable debts securities	**–**	5,073
Debts securities	**179,573**	211,948
Negotiable instrument of deposits	**298,105**	42,461
Malaysian Islamic treasury bills	**–**	7,505
	741,797	414,953

The maturity structure of AFS investment securities is as follows:

	Group 2011 RM'000	Group 2010 RM'000
Maturing within one year	**461,979**	152,086
One year to three years	**96,797**	200,180
Three years to five years	**111,822**	62,687
More than five years	**71,199**	–
	741,797	414,953

(d) FINANCING DEBTS

	Group 2011 RM'000	Group 2010 RM'000
House financing debts	**525,417**	553,644
Hire purchase debts	**3,217,740**	2,587,283
Personal financing	**3,136,478**	3,713,420
	6,879,635	6,854,347

The maturity structure of financing debts is as follows:

	Group 2011 RM'000	Group 2010 RM'000
Maturing within one year	**1,038,705**	702,765
One year to three years	**3,199,533**	1,284,009
Three years to five years	**2,641,397**	3,567,540
More than five years	**–**	1,300,033
	6,879,635	6,854,347

Notes to the Financial Statements

48. ISLAMIC OPERATIONS (continued)

(e) MORTGAGE ASSETS

	Group 2011 RM'000	2010 RM'000
PWOR	**7,431,303**	7,696,191
The maturity structure of mortgage assets is as follows:		
Maturing within one year	**911,883**	848,709
One year to three years	**1,197,919**	1,153,802
Three years to five years	**1,128,708**	1,119,160
More than five years	**5,741,145**	6,282,632
	8,979,655	9,404,303
Less: Unaccreted discount	**(1,505,109)**	(1,664,869)
Allowance for impairment losses	**(43,243)**	(43,243)
	7,431,303	7,696,191

(f) HIRE PURCHASE ASSETS

	Group 2011 RM'000	2010 RM'000
PWOR	**9,930**	6,689
The maturity structure of hire purchase assets is as follows:		
Maturing within one year	**2,737**	1,842
One year to three years	**4,904**	3,136
Three years to five years	**2,695**	2,034
More than five years	**132**	148
	10,468	7,160
Less: Unaccreted discount	**(538)**	(365)
Allowance for impairment losses	**–**	(106)
	9,930	6,689

Notes to the Financial Statements

48. ISLAMIC OPERATIONS (continued)

(g) SUKUK

	Group 2011 RM'000	Group 2010 RM'000
Bithaman Ajil	**243,735**	487,915
Medium-term notes	**10,341,732**	9,858,482
Commercial papers	**–**	304,932
	10,585,467	10,651,329

The maturity structure of Sukuk is as follows:

	Group 2011 RM'000	Group 2010 RM'000
Maturing within one year	**2,050,467**	1,822,594
One year to three years	**3,990,000**	4,458,735
Three years to five years	**2,210,000**	1,345,000
More than five years	**2,335,000**	3,025,000
	10,585,467	10,651,329

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

	Group 2011 RM'000	Group 2010 RM'000
IRMBS	**3,382,798**	3,382,798

The maturity structure of the IRMBS is as follows:

	Group 2011 RM'000	Group 2010 RM'000
Maturing within one year	**532,798**	17,798
One year to three years	**270,000**	515,000
Three years to five years	**515,000**	785,000
More than five years	**2,065,000**	2,065,000
	3,382,798	3,382,798

(i) OTHER LIABILITIES

	Group 2011 RM'000	Group 2010 RM'000
Zakat	**2,260**	1,785
Other payables	**8,364**	7,116
	10,624	8,901

Notes to the Financial Statements

48. ISLAMIC OPERATIONS (continued)

(j) INCOME ATTRIBUTABLE TO THE SUKUK HOLDERS

	Group	
	2011	**2010**
	RM'000	**RM'000**
Income from:		
Mortgage assets	**347,982**	360,889
Financing debts	**248,442**	211,177
Hire purchase assets	**293**	63
Deposits and placements with financial institutions	**67**	571
	596,784	572,700
Income attributable to the Sukuk holders analysed by concepts:		
Mudharabah	**448,796**	414,508
Musyarakah	**147,921**	157,621
Bai Al-Dayn	**67**	571
	596,784	572,700

(k) TOTAL NET INCOME

Income from:		
Mortgage assets	**184,008**	194,984
Hire purchase assets	**199**	50
Financing debts	**22,865**	23,092
AFS investment securities	**20,716**	15,572
Deposits and placements with financial institutions	**6,412**	5,248
Wakalah guarantee fee	**4**	–
	234,204	238,946
Total net income analysed by concepts are as follows:		
Bai Al-Dayn	**207,073**	218,126
Mudharabah	**10,835**	8,312
Bai Bithaman Ajil	**9,617**	4,434
Murabahah	**2,144**	3,136
Musyarakah	**4,241**	4,431
Bai Al-Inah	**280**	479
Ijarah	**10**	28
Wakalah	**4**	–
	234,204	238,946

48. ISLAMIC OPERATIONS (continued)

(l) CAPITAL ADEQUACY

	Group 2011 RM'000	Group 2010 RM'000
Tier I capital		
Allocated capital funds	**294,159**	294,159
Other reserves	**990,326**	818,927
	1,284,485	1,113,086
Deferred tax liabilities	**180,574**	157,152
Total Tier I capital	**1,465,059**	1,270,238
Tier II capital		
Allowance for impairment losses	**43,243**	43,243
Total Tier II capital	**43,243**	43,243
Total capital base	**1,508,302**	1,313,481
Capital ratios:		
Core*	**27.4%**	20.8%
Risk-weighted*	**28.2%**	21.5%

Breakdown of risk-weighted assets in the various categories is as follows:

	Group 2011 RM'000	Group 2010 RM'000
Credit risk	**4,882,918**	–
Operational risk	**466,767**	–
Total risk-weighted assets*	**5,349,685**	–

Breakdown of risk-weighted assets in the various categories of risk-weight is as follows:

	Group 2011 RM'000	Group 2010 RM'000
0%	**–**	443,527
10%	**–**	14
20%	**–**	7,114,947
50%	**–**	9,361,059
100%	**–**	55,274
	–	16,974,821
Total risk-weighted assets *	**–**	6,158,794

* Computation using Basel II (Pillar 1) for 2011 and Basel I for 2010

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

Notes to the Financial Statements

48. ISLAMIC OPERATIONS (continued)

(m) SHARIAH ADVISORS

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

49. DISCRETIONARY BONUS FEE

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

50. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There were no significant events during the financial year ended 31 December 2011.

51. APPROVAL OF FINANCIAL STATEMENTS

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

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

We, Dato' Ooi Sang Kuang and Datuk George Ratilal, being two of the Directors of Cagamas Holdings Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 84 to 163 are drawn up in accordance with the provisions of the Companies Act, 1965 and the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2011 and of the results and the cash flows of the Group and the Company for the financial year then ended.

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

DATO' OOI SANG KUANG
CHAIRMAN

DATUK GEORGE RATILAL
DIRECTOR

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

I, Choy Khai Choon, being the Officer primarily responsible for the financial management of Cagamas Holdings Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 84 to 163 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 16 March 2012, before me.

K. Nermala
COMMISSIONER FOR OATHS

Independent Auditors' Report

to the members of Cagamas Holdings Berhad (762047-P)

Report on the financial statements

We have audited the financial statements of Cagamas Holdings Berhad on pages 84 to 163, which comprise the statements of financial position as at 31 December 2011 of the Group and Company, and the statements of comprehensive income, changes in equity and cash flows of the Group and Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 51.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2011 and of its financial performance and cash flows for the year then ended.

Independent Auditors' Report

to the members of Cagamas Holdings Berhad (762047-P)

Report on other legal and regulatory requirements

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

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

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

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

Other matters

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

PRICEWATERHOUSECOOPERS
Firm Number AF: 1146
Chartered Accountants

ONG CHING CHUAN
No. 2907/11/13 (J)
Chartered Accountant

Kuala Lumpur
Date: 16 March 2012