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 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

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

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

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

The principal activities of the Group's subsidiary companies and its Special Purpose Entities ("SPE") are also disclosed in Note 19 and 20 of the financial statements.

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

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit for the financial year	455,664	123,322

DIVIDENDS

The dividends paid or declared by the Company since 31 December 2009 were as follows:

	RM'000
In respect of the financial year ended 31 December 2010:	
– a first interim dividend paid on 23 June 2010	16,875
– a second interim dividend paid on 25 October 2010	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.

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/$MARC\text{-}1_{ID}$ 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 year since the date of the last report are as follows:

Dato' Ooi Sang Kuang (Chairman)
Dato' Mohd Razif Abd Kadir
Tang Wing Chew
Datuk George Ratilal
Dato' Charon Wardini Mokhzani
Dato' Sri Abdul Wahid Omar

In accordance with Articles 19.13 and 19.14 of the Company's Articles of Association, Mr. Tang Wing Chew and Datuk George Ratilal retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFIT

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration 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 he is a member, or with a company in which he has substantial financial interest.

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 and options over shares in the Company or shares, options over shares and debentures of its related corporations during the year.

STATUTORY INFORMATION OF THE FINANCIAL STATEMENTS

Before the income statements 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.

STATUTORY INFORMATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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 Company to meet its obligations when they fall due.

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

In the opinion of the Directors,

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

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

AUDITORS

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

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

DATO' OOI SANG KUANG
CHAIRMAN

DATUK GEORGE RATILAL
DIRECTOR

Statements of Financial Position
as at 31 December 2010

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
ASSETS					
Cash and short-term funds	5	150,788	783,871	551	6
Deposits and placements with financial institutions	6	81,722	489,052	350	–
Derivative financial instruments	7	2,848	10,725	–	–
Available-for-sale investment securities	8	1,489,594	2,038,180	–	–
Amounts due from counterparties	9	4,325,110	4,657,507	–	–
Islamic financing debts	10	6,854,347	4,578,532	–	–
Mortgage assets					
Conventional	11	11,384,572	12,187,286	–	–
Islamic	12	7,696,191	7,973,299	–	–
Hire purchase assets					
Conventional	13	761	2,675	–	–
Islamic	14	25,463	28,375	–	–
Amount due from SPE		62	51	–	–
Amount due from joint venture company		–	9	–	–
Other assets	15	42,879	50,474	–	–
Property and equipment	16	5,363	6,253	–	–
Intangible assets	17	13,943	15,606	–	–
Deferred taxation	18	5,170	21,465	–	–
Investment in subsidiary	19	–	–	3,981,628	3,981,628
Investment in SPE	20	–	–	–	–
Interest in a joint venture company	21	51,852	50,865	50,000	50,000
Amount due from subsidiary		–	–	133,335	–
TOTAL ASSETS		32,130,665	32,894,225	4,165,864	4,031,634
LIABILITIES					
Unsecured bearer bonds and notes	22	10,039,490	11,450,880	–	–
Islamic bonds	23	10,651,329	9,154,815	–	–
Derivative financial instruments	7	46,813	52,507	–	–
Residential mortgage-backed securities	24	4,135,420	4,902,702	–	–
Islamic residential mortgage-backed securities	25	3,382,798	3,929,642	–	–
Deferred taxation	18	368,789	298,290	33,335	–
Provision for taxation		13,272	44,193	64	–
Other liabilities	26	13,473	13,661	10	–
Amount due to a subsidiary		–	–	2	3
TOTAL LIABILITIES		28,651,384	29,846,690	33,411	3
REPRESENTED BY:					
Share capital	27	150,000	150,000	150,000	150,000
Reserves	28	3,329,281	2,897,535	3,982,453	3,881,631
SHAREHOLDERS' FUND		3,479,281	3,047,535	4,132,453	4,031,631
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		32,130,665	32,894,225	4,165,864	4,031,634
NET TANGIBLE ASSETS PER SHARE (RM)	36	23.10	20.21	27.55	26.88

Income Statements
for the financial year ended 31 December 2010

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Interest income	29	1,119,453	1,154,390	11	–
Interest expense	30	(698,696)	(721,597)	–	–
Income from Islamic operations	46	240,179	243,543	–	–
Non-interest income	31	(13,256)	(13,511)	164,585	30,000
		647,680	662,825	164,596	30,000
Administration and general expenses		(17,421)	(18,087)	(158)	–
Personnel cost		(20,701)	(21,020)	–	–
Share of profit in a JV company	21	922	869	–	–
		610,480	624,587	164,438	30,000
Allowance for impairment losses	32	–	(65,426)	–	–
PROFIT BEFORE TAXATION AND ZAKAT	33	610,480	559,161	164,438	30,000
Zakat		(836)	(1,921)	–	–
Taxation	35	(153,980)	(142,551)	(41,116)	(7,500)
PROFIT FOR THE FINANCIAL YEAR		455,664*	414,689*	123,322	22,500
EARNINGS PER SHARE (SEN)	36	303.78	276.46	82.21	15.00
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 for CMBS of RM213,240,000 (2009: RM197,836,000) that may be subject to a discretionary bonus fee to the GOM after full settlement of the RMBS/IRMBS.

Statements of Comprehensive Income

for the financial year ended 31 December 2010

	Group		Company	
	2010 RM'000	**2009 RM'000**	**2010 RM'000**	**2009 RM'000**
Profit for the financial year	455,664	414,689	123,322	22,500
Other comprehensive income:				
Available-for-sale investment securities				
Net gain/(loss) on fair value changes before tax	3,488	(4,649)	–	–
Deferred taxation	(851)	1,161	–	–
Cash flow hedge				
Net (loss)/gain before tax	(3,600)	46,525	–	–
Deferred taxation	(627)	(9,995)	–	–
Transfer to income statement upon ineffective hedging	107	265	–	–
Share of other comprehensive income in a joint venture company	65	–	–	–
Other comprehensive (loss)/income for the financial year, net of tax	(1,418)	33,307	–	–
Total comprehensive income for the financial year	454,246	447,996	123,322	22,500

Statements of Changes in Equity
for the financial year ended 31 December 2010

Group	Note	Issued and fully paid ordinary shares of RM1 each RM'000	Share premium relief reserve RM'000	Reverse acquisition relief reserve RM'000	AFS reserve RM'000	Cash flow hedge reserve RM'000	Retained earnings RM'000	Other reserves* RM'000	Total RM'000
Balance as at 1 January 2010		150,000	3,831,628	(3,831,628)	843	(24,905)	1,906,351	1,015,246*	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
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)	2,339,515	1,015,246*	3,479,281

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

Statements of Changes in Equity

for the financial year ended 31 December 2010 (continued)

Group	Note	Issued and fully paid ordinary shares of RM1 each RM'000	Share premium relief reserve RM'000	Reverse acquisition relief reserve RM'000	AFS reserve RM'000	Cash flow hedge reserve RM'000	Retained earnings RM'000	Other reserves* RM'000	Total RM'000
Balance as at 1 January 2009		150,000	3,831,628	(3,831,628)	4,331	(61,700)	1,514,162	1,015,246*	2,622,039
Profit for the financial year		–	–	–	–	–	414,689	–	414,689
Other comprehensive (loss)/income		–	–	–	(3,488)	36,795	–	–	33,307
Total comprehensive (loss)/income for the financial year		–	–	–	(3,488)	36,795	414,689	–	447,996
First interim dividends in respect of financial year ended 31 December 2009	37	–	–	–	–	–	(16,875)	–	(16,875)
Second interim dividends in respect of financial year ended 31 December 2009	37	–	–	–	–	–	(5,625)	–	(5,625)
Balance as at 31 December 2009	27 & 28	150,000	3,831,628	(3,831,628)	843	(24,905)	1,906,351	1,015,246*	3,047,535

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

Statements of Changes in Equity

for the financial year ended 31 December 2010 (continued)

Company	Note	Issued and fully paid ordinary shares of RM1 each	Non-Distributable	Distributable	
		Share capital RM'000	Share premium relief reserve RM'000	Retained profits RM'000	Total RM'000
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
Balance as at 1 January 2009		150,000	3,831,628	50,003	4,031,631
Profit for the financial year		–	–	22,500	22,500
Other comprehensive income		–	–	–	–
Total comprehensive income for the financial year		–	–	22,500	22,500
First interim dividends in respect of financial year ended 31 December 2009	37	–	–	(16,875)	(16,875)
Second interim dividends in respect of financial year ended 31 December 2009	37	–	–	(5,625)	(5,625)
Balance as at 31 December 2009	27 & 28	150,000	3,831,628	50,003	4,031,631

Statements of Cash Flow
for the financial year ended 31 December 2010

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
OPERATING ACTIVITIES					
Profit for the financial year		455,664	414,689	123,322	22,500
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		(1,107)	(8,226)	–	–
Amortisation of premium less accretion of discount on Islamic debt securities		(1,184)	(2,682)	–	–
Accretion of discount on mortgage assets		(299,864)	(293,303)	–	–
Accretion of discount on Islamic mortgage assets		(188,136)	(187,497)	–	–
Accretion of discount of hire purchase assets		(33)	(19)	–	–
Accretion of discount of Islamic hire purchase assets		(898)	(217)	–	–
Accretion of discount on Islamic Commercial Papers		2,377	58	–	–
Income from Islamic debt securities		(190,315)	(1,072)	–	–
Interest income		(817,651)	(854,159)	–	–
Income from Islamic operations		(432,348)	(574,574)	–	–
Interest expense		698,696	721,597	–	–
Profit attributable to Islamic bondholders		569,752	529,409	–	–
Guarantee fee expense		206	442	–	–
Wakalah fee expense		175	374	–	–
Management fee		–	(500)	–	–
Depreciation of property and equipment		1,172	1,134	–	–
Amortisation of intangible assets		2,364	3,223	–	–
(Gain)/loss on disposal of property and equipment		(10)	228	–	–
Gain on disposal of available-for-sale investment securities		(1,349)	(165)	–	–
Unrealised loss on revaluation of IRS		472	846	–	–
Realised loss on IRS hedge		107	265	–	–
Allowance for impairment losses		–	65,426	–	–
Share of profit in a joint venture company		(922)	(869)	–	–
Taxation		153,980	150,050	41,116	7,500
Zakat		836	1,921	–	–
Operating (loss)/profit before working capital changes		(48,016)	(33,621)	164,438	30,000

Statements of Cash Flow

for the financial year ended 31 December 2010 (continued)

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Decrease in amounts due from counterparties		332,398	5,121,561	–	–
(Increase)/decrease in Islamic financing debts		(2,275,815)	1,076,601	–	–
Decrease/(increase) in mortgage assets		1,102,582	(2,064,779)	–	–
Decrease/(increase) in Islamic mortgage assets		465,244	(1,507,751)	–	–
Decrease/(increase) in hire purchase assets		1,949	(2,656)	–	–
Decrease/(increase) in Islamic hire purchase assets		3,810	(28,158)	–	–
(Decrease)/increase in other assets		(111,045)	22,104	–	218
Increase in amount due from subsidiary		–	–	(133,335)	–
Decrease in unsecured bearer bonds and notes		(1,397,301)	(1,854,358)	–	–
Increase in Islamic bonds		1,470,505	582,837	–	–
Decrease in residential mortgage-backed securities		(767,283)	(343,160)	–	–
Decrease in Islamic residential mortgage-backed securities		(546,844)	(221)	–	–
(Increase)/decrease in other liabilities		(922)	5,298	9	(218)
Decrease in deposits and placement of financial institutions		–	(465,000)	–	–
Cash (utilised in)/generated from operating activities		(1,770,738)	508,697	31,112	30,000
Income received from Islamic assets		768,592	575,049	–	–
Guarantee fee paid		–	(647)	–	–
Wakalah fee paid		–	(543)	–	–
Management fee received		–	750	–	–
Interest received		784,033	847,940	–	–
Interest paid		(712,785)	(595,117)	–	–
Profit attributable to Islamic bondholders		(546,120)	(767,472)	–	–
Payment of zakat		(1,702)	(2,105)	–	–
Payment of taxation		(98,455)	(83,527)	(7,717)	(7,500)
Net cash (utilised in)/generated from operating activities		(1,577,175)	483,025	23,395	22,500

Statements of Cash Flow

for the financial year ended 31 December 2010 (continued)

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
INVESTING ACTIVITIES					
Purchase of available-for-sale investment securities		(2,498,055)	(3,854,729)	–	–
Sale of available-for-sale investment securities		3,053,593	3,107,890	–	–
Income received from available-for-sale investment securities		6,413	9,740	–	–
(Purchase)/sale of derivative instruments		(1,889)	8,702	–	–
Purchase of property and equipment		(290)	(5,912)	–	–
Purchase of intangible assets		(701)	(691)	–	–
Proceeds received from disposal of property and equipment		16	38	–	–
Income received from Islamic securities		175	1,071	–	–
Net cash generated from/(utilised in) investing activities		559,262	(733,883)	–	–
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 (decrease)/increase in cash and cash equivalents		(1,040,413)	(273,358)	895	–
Cash and cash equivalents as at beginning of the financial year		1,272,923	1,546,281	6	6
Cash and cash equivalents as at end of the financial year		232,510	1,272,923	901	6
Analysis of cash and cash equivalents:					
Cash and short-term funds	5	150,788	783,871	551	6
Deposits and placements with financial institutions	6	81,722	489,052	350	–
		232,510	1,272,923	901	6

Notes to the Financial Statements
as at 31 December 2010

1 GENERAL INFORMATION

The principal activity of the Company is investment holding.

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

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

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

The principal activities of the Group's subsidiary companies and its SPEs are also disclosed in Note 19 and 20 of the financial statements.

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

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

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

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 debt securities under Shariah principles, and acquisition, investment in 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 Group and 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

- FRS 7 “Financial instruments: Disclosure”
- The revised FRS 101 “Presentation of financial statements”
- Amendments to FRS 139 “Financial instruments : Recognition and Measurement”
- FRS 8 “Operating segments”

The adoption of the new standards does not have a significant impact on the financial statements of the Group and Company.

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

The Group and Company will apply the following new standards, amendments to standards and interpretations when effective;

- The revised FRS 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

- Amendments to FRS 7 “Financial instruments: Disclosures” and FRS 1 "First-time adoption of financial reporting standards" (effective from 1 January 2011) requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

- FRS 101 “Presentation of financial statements” (effective from 1 January 2011) clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements

Changes to the above standards will result in additional disclosures in the financial statements of the Group and Company.

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;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Economic entities in the Group (continued)

(a) Subsidiaries (continued)

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

- internal group reorganisations, as defined in $FRS122_{2004}$, consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 where:

  – the ultimate shareholders remain the same, and the rights of each such shareholder, relative to the others, are unchanged; and

  – the minorities’ share of net assets of the Group is not altered by the transfer.

- business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006.

The Group has taken advantage of the exemption provided by $FRS122_{2004}$ and FRS 3 to apply these Standards prospectively. Accordingly, business combinations entered into prior to the respective effective dates have not been restated to comply with these Standards.

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

Intragroup transactions, balances, and unrealised gains in transactions between group 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 though the equity method of accounting. Equity accounting involves recognising the Group’s share of the post-acquisition results of the JV in the income statement and its share of post-acquisition movements within reserves in reserves.

2.3 Special Purpose Entities (“SPE”)

An SPE shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity. In the context of an SPE, control may arise through the predetermination of the activities of the SPE (operating on “autopilot”) or otherwise. The application of the control concept 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 Amounts due from counterparties and Islamic financing debts

The Group's main activities, inter alia, involve the purchase of conventional and Islamic, mortgage 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 and hire purchase and leasing debts are stated at their unpaid principal balances due to the Group. Interest income on amounts due from counterparties is recognised on an accrual basis and computed at the respective interest rates based on monthly rest.

2.5 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/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 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 Company contracts to purchase the investment. Investments are derecognised when the Group and 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 cumulative fair value changes reflected under AFS reserve in equity, and recognised in the income statement when the investment securities are disposed of, collected or otherwise sold, or when the securities are determined to be impaired. The fair value of the investment securities is derived from market indicative quotes or observable market prices at the reporting date.

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

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

Interest from AFS investment debt 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 income using the effective yield method.

2.7 Investments in subsidiary and SPE

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Property and equipment

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

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

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

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

At each 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 before taxation and zakat.

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.

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 available for sale

The Group assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or group or financial asset if 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 securities AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of assets (continued)

(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 and income on Islamic assets are recognised using the effective interest rate method. Accretion of discount is recognised on an effective yield basis.

2.11 Premium and discount on unsecured bearer bonds

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

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

Deferred 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 assets is realised or 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the Chief Executive Officer of the Company 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 loss depends on the type of hedge.

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 item.

Cash flow hedge

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

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

2.17 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 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Zakat

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

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

Zakat rates enacted or substantively enacted by the 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% (2009: 2.5%) of the zakat base. The zakat base of the Company is determined based on 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.

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 (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 (“Service Rights”) represents secured rights to receive expected future economic 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Intangible assets (continued)

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.

2.21 Residential mortgage-backed securities (“RMBS”) and Islamic residential mortgage-backed securities (“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 cost.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Financial instruments (continued)

(b) Fair value estimation

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 other 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 within her next financial year are outlined below.

(a) Fair value of derivatives and AFS investments securities

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

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 flow to service the the assets.

(c) Securitisations 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 judgments about its exposure to the risks and rewards, as well as about its ability to make financial and operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach clear conclusion. When assessing whether the Group has to consolidate an SPE, the Group evaluates a range of factors to determine control, including whether:

(i) the Group will obtain the majority of the benefits of the activities of 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.

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

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

4 RISK MANAGEMENT OBJECTIVE AND POLICIES (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 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 statement of financial position form such as lending and investments, and in off statement of financial position form from guarantees and treasury hedging activities.

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

Credit risk is also mitigated via underlying assets which comprise 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 IRS are also used to manage and hedge market risk exposures against fluctuations in the interest rates.

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.

4 RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

4.4 Liquidity risk management (continued)

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 monitor 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 market.

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 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; and

(d) Managing the concentration and profile of funding by diversification of funding sources.

5 CASH AND SHORT-TERM FUNDS

	Group		Company	
	2010 RM’000	2009 RM’000	2010 RM’000	2009 RM’000
Cash and balances with banks and other financial institutions	295	379	15	6
Money at call and deposits placements maturing within one month	117,118	605,929	536	–
Mudharabah money at call and deposits placements maturing within one month	33,375	177,563	–	–
	150,788	783,871	551	6

6 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed banks	81,722	489,052	350	–

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.

7 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

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 2010 was a credit of RM44.0 million (2009: RM42.4 million).

(b) Fair value hedges

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

(c) Net investment hedges

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

All derivatives financial instruments are held for economic hedging purposes. 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.

	2010			2009		
	Contract/ notional amount RM'000	Fair value Assets RM'000	Fair value Liabilities RM'000	Contract/ notional amount RM'000	Fair value Assets RM'000	Fair value Liabilities RM'000
Derivatives in accounting hedge relationships						
Derivatives designated as cash flow hedges:						
IRS	570,000	–	(44,018)	720,000	–	(42,371)
Derivatives not in accounting hedge relationship						
IRS	320,000	2,848	(2,795)	760,000	10,725	(10,136)
Total recognised derivative assets/ (liabilities)	890,000	2,848	(46,813)	1,480,000	10,725	(52,507)

7 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

	Group	
	2010 RM'000	2009 RM'000
Maturing within one year	455,000	590,000
One year to three years	25,000	480,000
More than five years	410,000	410,000
	890,000	1,480,000

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

At fair value:		
Malaysian Government securities	291,782	123,840
Khazanah bonds	–	35,346
Private debt securities	341,623	512,028
Malaysian Government investment issues	214,154	51,386
BNM negotiable notes	69,216	–
Islamic debt securities	415,537	694,322
Negotiable instruments of deposits	100,387	620,636
Malaysian Treasury Bills	6,929	–
Malaysian Islamic Treasury Bills	7,505	–
Islamic negotiable instrument of deposit	42,461	622
	1,489,594	2,038,180

The maturity structure of AFS investment securities is as follows:

Maturing within one year	443,119	1,438,869
One year to three years	890,151	323,255
Three years to five years	156,324	220,518
More than five years	–	55,538
	1,489,594	2,038,180

9 AMOUNTS DUE FROM COUNTERPARTIES

Relating to:		
Mortgage loans	3,887,937	3,854,100
Hire purchase and leasing debts	437,173	803,407
	4,325,110	4,657,507

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

Maturing within one year	1,210,727	1,292,954
One year to three years	1,592,354	1,801,377
Three years to five years	1,522,029	1,563,176
	4,325,110	4,657,507

10 ISLAMIC FINANCING DEBTS

	Group 2010 RM'000	Group 2009 RM'000
Islamic house financing debts	553,644	1,845,048
Islamic hire purchase debts	2,587,283	1,684,150
Islamic personal financing	3,713,420	1,049,334
	6,854,347	4,578,532

The maturity structure of Islamic financing debts is as follows:

	2010 RM'000	2009 RM'000
Maturing within one year	702,765	1,833,335
One year to three years	1,284,009	1,242,856
Three years to five years	3,567,540	1,502,341
More than five years	1,300,033	–
	6,854,347	4,578,532

11 CONVENTIONAL MORTGAGE ASSETS

Conventional mortgage assets:

	2010 RM'000	2009 RM'000
Purchase Without Recourse ("PWOR")	11,384,572	12,187,286

The maturity structure of conventional mortgage assets is as follows:

	2010 RM'000	2009 RM'000
Maturing within one year	1,613,063	1,354,388
One year to three years	2,188,906	2,210,495
Three years to five years	1,909,785	1,976,903
More than five years	8,319,443	9,333,203
	14,031,197	14,874,989
Less: Unaccreted discount	(2,580,691)	(2,621,769)
Allowance for impairment losses	(65,934)	(65,934)
	11,384,572	12,187,286

12 ISLAMIC MORTGAGE ASSETS

Islamic mortgage assets:

	2010 RM'000	2009 RM'000
Purchase Without Recourse ("PWOR")	7,696,191	7,973,299

The maturity structure of Islamic mortgage assets is as follows:

	2010 RM'000	2009 RM'000
Maturing within one year	848,709	643,227
One year to three years	1,153,802	1,111,028
Three years to five years	1,119,160	1,097,639
More than five years	6,282,631	6,875,140
	9,404,302	9,727,034
Less: Unaccreted discount	(1,664,868)	(1,710,492)
Allowance for impairment losses	(43,243)	(43,243)
	7,696,191	7,973,299

13 CONVENTIONAL HIRE PURCHASE ASSETS

	Group 2010 RM'000	Group 2009 RM'000
Conventional hire purchase assets:		
Purchase Without Recourse ("PWOR")	761	2,675

The maturity structure of the conventional hire purchase assets is as follows:

	2010 RM'000	2009 RM'000
Maturing within one year	740	1,803
One year to three years	48	926
	788	2,729
Less: Unaccreted discount	(11)	(38)
Allowance for impairment losses	(16)	(16)
	761	2,675

14 ISLAMIC HIRE PURCHASE ASSETS

	2010 RM'000	2009 RM'000
Islamic hire purchase assets:		
Purchase Without Recourse ("PWOR")	25,463	28,375

The maturity structure of Islamic hire purchase assets is as follows:

	2010 RM'000	2009 RM'000
Maturing within one year	7,614	8,803
One year to three years	14,039	13,982
Three years to five years	5,068	7,365
More than five years	148	554
	26,869	30,704
Less: Unaccreted discount	(1,230)	(2,153)
Allowance for impairment losses	(176)	(176)
	25,463	28,375

15 OTHER ASSETS

	2010 RM'000	2009 RM'000
Mortgage assets repurchased	36,504	43,156
Staff loans and financing	4,327	4,532
Deposits	737	932
Prepayments	1,024	1,243
Prepaid mortgage guarantee fee	16	205
Prepaid Wakalah fee	30	168
Other receivables	241	238
	42,879	50,474

16 PROPERTY AND EQUIPMENT

	Office equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Group					
2010					
Cost					
As at 1 January 2010	4,141	4,502	617	4	9,264
Additions	245	45	–	–	290
Disposals	(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
2009					
Cost					
As at 1 January 2009	3,679	930	722	4	5,335
Additions	1,561	4,351	–	–	5,912
Disposals	(1,099)	(779)	(105)	–	(1,983)
As at 31 December 2009	4,141	4,502	617	4	9,264
Accumulated Depreciation					
As at 1 January 2009	(2,549)	(573)	(472)	–	(3,594)
Charge for the year	(690)	(338)	(106)	–	(1,134)
Disposals	1,086	526	105	–	1,717
As at 31 December 2009	(2,153)	(385)	(473)	–	(3,011)
Net book value as at 31 December 2009	1,988	4,117	144	4	6,253

17 INTANGIBLE ASSETS

	Service rights RM'000	Computer software RM'000	Licenses RM'000	Computer software under development RM'000	Total RM'000
Group					
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
2009					
Cost					
As at 1 January 2009	16,717	10,004	705	297	27,723
Additions	–	429	262	–	691
As at 31 December 2009	16,717	10,433	967	297	28,414
Accumulated Amortisation					
As at 1 January 2009	(4,094)	(5,373)	(118)	–	(9,585)
Charge for the year	(1,204)	(1,813)	(206)	–	(3,223)
As at 31 December 2009	(5,298)	(7,186)	(324)	–	(12,808)
Net book value as at 31 December 2009	11,419	3,247	643	297	15,606

Service rights are amortised over a straight line basis, over the tenure of the RMBS/IRMBS. The remaining amortisation period of the assets ranges from 4 to 17 years (2009: 5 to 18 years).

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**	
	2010 RM'000	**2009 RM'000**	**2010 RM'000**	**2009 RM'000**
Deferred taxation assets (before offsetting)	5,170	21,465	–	–
Deferred taxation liabilities (before offsetting)	(368,789)	(298,290)	(33,335)	–
Deferred taxation liabilities	(363,619)	(276,825)	(33,335)	–

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

Group 2010 Deferred taxation assets/(liabilities)	**As at 1.1.2010 RM'000**	**(Debit)/credit to income statement RM'000**	**(Debit)/ credit to reserves RM'000**	**As at 31.12.2010 RM'000**
Excess of capital allowances over depreciation on property and equipment	(4,622)	(165)	–	(4,787)
Temporary difference relating to accretion of discount of AFS investment securities and mortgage assets	(309,734)	(57,931)	–	(367,665)
Unrealised gains on 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)

2009 Deferred taxation assets/(liabilities)	**As at 1.1.2009 RM'000**	**(Debit)/credit to income statement RM'000**	**(Debit)/ credit to reserves RM'000**	**As at 31.12.2009 RM'000**
Excess of capital allowances over depreciation on property and equipment	(1,537)	(3,085)	–	(4,622)
Temporary difference relating to accretion of discount of AFS investment securities and mortgage assets	(257,604)	(52,130)	–	(309,734)
Unrealised gains on revaluation of AFS investment securities	(1,443)	–	1,161	(282)
Unrealised gains on revaluation of IRS	(1,609)	113	–	(1,496)
Temporary difference relating to allowance for impairment losses	10,986	16,355	–	27,341
Unrealised losses on revaluation of IRS under cash flow hedge accounting	21,860	103	(9,995)	11,968
	(229,347)	(38,644)	(8,834)	(276,825)

18 DEFERRED TAXATION (CONTINUED)

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

	As at 1.1.2010 RM'000	(Debit)/credit to income statement RM'000	(Debit)/ credit to reserves RM'000	As at 31.12.2010 RM'000
Company				
2010				
Deferred taxation assets/(liabilities)				
Temporary difference relating to dividend receivable from subsidiary company	–	(33,335)	–	(33,335)
	–	(33,335)	–	(33,335)

	As at 1.1.2009 RM'000	(Debit)/credit to income statement RM'000	(Debit)/ credit to reserves RM'000	As at 31.12.2009 RM'000
2009				
Deferred taxation assets/(liabilities)				
Temporary difference relating to dividend receivable from subsidiary company	–	–	–	–
	–	–	–	–

19 INVESTMENT IN SUBSIDIARY COMPANIES

	2010 RM'000	2009 RM'000
Investment in subsidiary companies:		
Unquoted shares at cost	3,981,628	3,981,628

The subsidiary companies of the Company are as follows:

Name	Principal activities	Interest in equity held by the Company 2010
Cagamas	Consist of purchases of mortgage loans and hire purchase and leasing debts from primary lenders approved by Cagamas and the issue of bonds and notes to finance the purchases. Cagamas also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.	100%

19 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

The subsidiary companies of the Company are as follows (continued):

Name	**Principal activities**	**Interest in equity held by the Company 2010**
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 the mortgage assets and Islamic mortgage assets.	100%

20 INVESTMENT IN SPECIAL PURPOSE ENTITIES ("SPE")

	2010 RM'000	**2009 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 2010**
BNM Sukuk	The principal activities of the Company are to undertake the issuances 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 building 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 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%
CSRP	Managing and facilitating guarantee business in relation to Skim Rumah Pertamaku ("SRP") introduced by the Government of Malaysia.	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.

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

	2010 RM'000	2009 RM'000
Group		
Share of net assets of a JV	51,852	50,865
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 assets and liabilities, and results of the JV. They are included in the statement of financial position and income statement of the Group.

	Group	
	2010 RM'000	2009 RM'000
Assets		
Current assets	52,048	51,191
Liabilities		
Current liabilities	(196)	(326)
Net assets	51,852	50,865
Income	1,602	1,552
Expenses	(680)	(683)
Profit after tax	922	869

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

22 UNSECURED BEARER BONDS AND NOTES

Group		Year of maturity	2010 Amount outstanding RM'000	Effective interest rate %	2009 Amount outstanding RM'000	Effective interest rate %
(a)	Fixed rate bonds	2010	–	–	1,325,000	4.220–4.795
		2011	480,000	3.912–4.350	480,000	3.912–4.350
			480,000	–	1,805,000	–
	Add: Interest payable		4,150	–	15,735	–
	Less: Unamortised discount		–		(108)	
			484,150		1,820,627	
(b)	Short-term notes	2010	–	–	300,000	2.330–2.350
	Add: Interest payable		–	–	1,200	–
			–		301,200	
(c)	Floating rate notes	2011	135,000	2.370–2.990	–	–
		2012	25,000	3.060	–	–
		2013	180,000	3.410	–	–
			340,000	–	–	–
	Add: Interest payable		3,407	–	–	–
			343,407		–	
(d)	Medium-term notes					
		2010	–	–	1,190,000	2.500–4.480
		2011	710,000	2.950–4.630	700,000	2.950–4.630
		2012	750,000	3.400–4.210	745,000	3.400–4.210
		2013	155,000	3.500–5.000	145,000	4.900–5.000
		2014	2,070,000	4.320–4.660	2,070,000	4.320–4.660
		2015	255,000	3.820–5.300	245,000	5.190–5.300
		2016	380,000	4.700–4.930	380,000	4.700–4.930
		2017	1,465,000	3.980–4.640	455,000	4.640
		2018	140,000	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	170,000	5.900–6.000
		2021	310,000	5.120–5.380	310,000	5.120–5.380
		2022	360,000	4.480–4.950	350,000	4.950
		2023	140,000	6.005	140,000	6.050
		2024	425,000	5.267–5.520	425,000	5.270–5.520
		2025	5,000	4.650	–	–
		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
			9,115,000		9,230,000	
	Add: Interest payable		96,933		99,053	
			9,211,933		9,329,053	
			10,039,490		11,450,880	

22 UNSECURED BEARER BONDS AND NOTES (CONTINUED)

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

	Group 2010 RM'000	Group 2009 RM'000
Maturing within one year	1,429,490	2,930,880
One year to three years	1,110,000	1,925,000
Three years to five years	2,325,000	2,215,000
More than five years	5,175,000	4,380,000
	10,039,490	11,450,880

(a) Fixed rate bonds

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

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

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

(c) Floating rate notes

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

23 ISLAMIC BONDS

	Year of maturity	2010 Amount outstanding RM'000	2010 Effective profit rate %	2009 Amount outstanding RM'000	2009 Effective profit rate %
Group					
(a) Bithaman Ajil Islamic securities					
(i) Primary Bonds	2010	–	–	985,000	3.660–4.220
	2011	240,000	4.050–4.160	240,000	4.050–4.160
	2012	240,000	4.150	240,000	4.150
		480,000		1,465,000	
(ii) Secondary bonds	2010	–	–	39,714	–
	2011	14,930	–	14,930	–
	2012	4,980	–	4,980	–
		499,910		1,524,624	
Less: Unamortised deferred expenses		(11,995)	–	(38,684)	
		487,915		1,485,940	

23 ISLAMIC BONDS (CONTINUED)

	Year of maturity	2010 Amount outstanding RM'000	2010 Effective profit rate %	2009 Amount outstanding RM'000	2009 Effective profit rate %
(b) Islamic commercial papers					
	2010	–	–	380,000	2.400-2.420
	2011	300,000	3.000	–	–
		300,000		380,000	
Add: Profit payable		4,932	–	335	–
Less: Unamortised discount		–	–	(907)	–
		304,932		379,428	
(c) Islamic medium-term notes					
	2010	–	–	2,400,000	2.500–4.250
	2011	1,170,000	2.950–4.630	650,000	2.950–4.630
	2012	1,285,000	3.300–3.900	885,000	3.340–3.900
	2013	2,930,000	3.410–5.000	235,000	4.900–5.000
	2014	290,000	4.000–4.660	290,000	4.000–4.660
	2015	1,055,000	3.820–5.300	245,000	5.190–5.300
	2016	740,000	3.850–4.930	240,000	4.710–4.930
	2017	5,000	4.050	–	–
	2018	195,000	5.710–5.800	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	260,000	5.900–6.000
	2021	235,000	5.150–5.380	235,000	5,150–5.380
	2022	5,000	4.480	–	–
	2023	335,000	6.050–6.350	335,000	6.050–6.350
	2024	305,000	5.270–5.520	305,000	5.270–5.520
	2025	5,000	4.650	–	–
	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
		9,755,000		7,205,000	
Add: Profit payable		103,482	–	84,447	–
		9,858,482		7,289,447	
		10,651,329		9,154,815	

23 ISLAMIC BONDS (CONTINUED)

The maturity structure of Islamic bonds is as follows:

	Group 2010 RM'000	Group 2009 RM'000
Maturing within one year	1,822,594	3,861,900
One year to three years	4,458,735	2,022,915
Three years to five years	1,345,000	525,000
More than five years	3,025,000	2,745,000
	10,651,329	9,154,815

(a) Bithaman Ajil Islamic securities

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

(b) Islamic commercial papers

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

(c) Islamic medium-term notes

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

24 RESIDENTIAL MORTGAGE-BACKED SECURITIES ("RMBS")

	Year of Maturity	2010 Amount outstanding RM'000	2010 Effective interest rate %	2009 Amount outstanding RM'000	2009 Effective interest rate %
Group					
RMBS	2010	–	4.000–4.440	765,000	4.000–4.440
	2011	290,000	4.950	290,000	4.950
	2012	645,000	4.100–4.710	645,000	4.100–4.710
	2014	725,000	4.280–4.500	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
		4,115,000		4,880,000	
Add : Interest payable		20,420		22,702	
		4,135,420		4,902,702	

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

The maturity structure of the RMBS is as follows:

	Group 2010 RM'000	Group 2009 RM'000
Maturing within one year	310,420	787,702
One year to three years	645,000	935,000
Three years to five years	1,045,000	725,000
More than five years	2,135,000	2,455,000
	4,135,420	4,902,702

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")

	Year of Maturity	2010 Amount outstanding RM'000	2010 Effective profit rate %	2009 Amount outstanding RM'000	2009 Effective profit rate %
Group					
IRMBS	2010	–	3.630–3.840	545,000	3.630–3.840
	2012	515,000	3.700–4.240	515,000	3.700–4.240
	2014	270,000	3.700–3.780	270,000	3.700–3.780
	2015	515,000	3.780–4.710	515,000	3.780–4.710
	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	4.430	290,000	4.430
		3,365,000		3,910,000	
Add : Profit attributable		17,798		19,642	
		3,382,798		3,929,642	

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

The maturity structure of the IRMBS is as follows:

	Group	
	2010 RM'000	2009 RM'000
Maturing within one year	17,798	564,642
One year to three years	515,000	515,000
Three years to five years	785,000	270,000
More than five years	2,065,000	2,580,000
	3,382,798	3,929,642

The IRMBS have the following features:

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

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

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

(d) The IRMBS constitute direct, unconditional, unsubordinated and secured obligations of the 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 Islamic mortgage assets, the related collections and the proceeds from the enforcement of other securities related to the Islamic mortgage assets.

26 OTHER LIABILITIES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Provision for zakat	1,785	2,651	–	–
Other payables	11,688	11,010	10	–
	13,473	13,661	10	–

27 SHARE CAPITAL

Ordinary shares of RM1 each:

	2010 RM'000	2009 RM'000
Group and Company		
Authorised:		
Balance as at beginning and end of the financial year	500,000	500,000
Issued and fully paid up:		
Balance as at beginning and end of the financial year	150,000	150,000

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

28 RESERVES

The Group has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to pay dividends out of its entire retained profits as at 31 December 2010. The Group also has tax exempt income under Section 12 of the Income Tax (Amendments) Act, 1999 which can be paid out as tax exempt dividends.

29 INTEREST INCOME

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Interest income from:				
Amounts due from counterparties relating to:				
Mortgage loans	176,829	190,836	–	–
Hire purchase and leasing debts	29,297	53,773	–	–
Mortgage assets	561,263	557,023	–	–
Mortgage assets repurchased	1,419	1,678	–	–
AFS investment securities	31,299	26,007	–	–
Deposits and placements with financial institutions	16,482	24,367	11	–
Islamic hire purchase assets	1,073	475	–	–
	817,662	854,159	11	–
Accretion of discount less amortisation of premium (net)	301,791	300,231	–	–
	1,119,453	1,154,390	11	–

30 INTEREST EXPENSE

	Group	
	2010 RM'000	2009 RM'000
Interest expense on:		
Fixed rate bonds	37,679	99,028
Floating rate notes	5,876	–
Medium-term notes	422,813	325,555
Short-term notes	4,406	47,062
RMBS	226,872	246,800
Deposits and placements of financial institutions	1,050	3,152
	698,696	721,597

31 NON-INTEREST INCOME

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Realised loss on derivatives	(15,919)	(14,609)	–	–
Other non-operating income	161	1,449	–	–
Gain on disposal of AFS investment securities	1,349	142	–	–
Gain/(loss) on disposal of property and equipment	10	(228)	–	–
Realised loss on hedged IRS	(107)	(265)	–	–
Management fee income	1,250	–	1,250	–
Dividend income	–	–	163,335	30,000
	(13,256)	(13,511)	164,585	30,000

32 ALLOWANCE FOR IMPAIRMENT LOSSES

	Group	
	2010 RM'000	2009 RM'000
Allowance for impairment losses	–	65,426

33 PROFIT BEFORE TAXATION AND ZAKAT

	Group		Company	
	2010 RM'000	**2009 RM'000**	**2010 RM'000**	**2009 RM'000**
The following items have been charged in arriving at profit before taxation and zakat:				
Directors' remuneration (Note 34)	889	795	–*	–*
Rental of premises	2,234	2,220	–	–
Hire of equipment	181	194	–	–
Auditors' remuneration:				
Audit fee	142	127	–*	–*
Non-audit fee	32	52	–	–
Depreciation of property and equipment	1,172	1,134	–	–
Amortisation of intangible assets	2,364	3,223	–	–
Servicer fee	3,355	1,237	–	–
Repairs and maintenance	1,222	1,113	–	–
Donations and sponsorship	802	35	–	–
Corporate expenses	515	633	–	–
Travelling	385	318	–	–
Personnel cost:				
Salary and allowances	10,615	9,298	–	–
Bonus	4,784	7,278	–	–
Overtime	53	54	–	–
Contributions to Employees Provident Fund	3,407	2,687	–	–
SOCSO	55	49	–	–

* Directors remuneration of RM309,000 and auditor's remuneration of RM18,020 (2009: RM259,000 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)
Dato' Mohd Razif Abd Kadir
Tang Wing Chew
Datuk George Ratilal
Dato' Charon Wardini Mokhzani
Dato' Sri Abdul Wahid Omar

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

	Group		Company	
	2010 RM'000	**2009 RM'000**	**2010 RM'000**	**2009 RM'000**
Non-executive Directors:				
Fees	679	726	236	236
Other remuneration	210	69	73	23
	889	795	309	259

35 TAXATION

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
(a) Tax charge for the financial year				
Current tax	68,664	103,907	7,781	7,500
Deferred taxation (Note 18)	85,316	38,644	33,335	–
	153,980	142,551	41,116	7,500
Current tax:				
Current year	92,917	103,907	7,593	7,500
(Over)/under provision in prior year	(24,253)	–	188	–
Deferred taxation:				
Origination and reversal of temporary differences	85,316	38,644	33,335	–
	153,980	142,551	41,116	7,500

(b) Reconciliation of income tax expense

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

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Profit before taxation and zakat	610,480	559,161	164,438	30,000
Tax calculated at tax rate of 25% (2009: 25%)	152,620	139,790	41,110	7,500
Expenses not deductible for tax purposes	783	3,448	–	–
Income not subject to tax	(201)	(215)	(182)	–
(Over)/under provision in prior year	(24,253)	–	188	–
Deduction arises from zakat contribution	(425)	(526)	–	–
Change in taxation basis	25,598	62	–	–
Expenses allowed for double deduction	(142)	(8)	–	–
	153,980	142,551	41,116	7,500

36 NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM3,465,338,000 of the Group and RM4,132,453,000 of the Company respectively (2009: RM3,031,929,000 and RM4,031,631,000 for the Group and the Company respectively) by the 150,000,000 shares of the Group and the Company in issue.

Basic and diluted earnings per share is calculated by dividing the net profit for the financial year of RM455,664,000 of the Group and RM123,322,000 of the Company respectively (2009: RM414,689,000 of the Group and RM22,500,000 of the Company respectively) by the 150,000,000 shares of the Group and the Company in issue. For the diluted earnings per share calculation, no adjustment has been made to weighted number of ordinary shares in issue as there are no dilutive potential ordinary shares.

37 DIVIDENDS

2010	**Company** 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 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

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

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

BNM is regarded as a related party 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 Group include all the Directors of the Group and its holding company, certain members of senior management and their close family members.

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

(b) Significant related party transactions and balances

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

38 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	Subsidiary company RM '000	JV RM'000	Wholly owned SPE of holding company RM'000	BNM RM'000
Group				
2010				
Income				
Transaction administrator and administrator fees	9,277	–	160	185
Management fee	–	500	–	–
Expenses				
Fully Automated System for Issuing and Tendering ("FAST") & Real-time Electronic Transfer of Funds and Securities ("RENTAS") charges	–	–	–	89
Guarantee and wakalah fee expense	–	382	–	–
Amount due from				
Transaction administrator and administrator fees	997	–	43	–
BNM Current accounts	–	–	–	26
Reimbursement of operating expenses	–	9	–	–
2009				
Income				
Transaction administrator and administrator fees	10,086	–	199	–
Management fee	–	500	–	–
Expenses				
Fully Automated System for Issuing and Tendering ("FAST") & Real-time Electronic Transfer of Funds and Securities ("RENTAS") charges	–	–	–	21
Guarantee and wakalah fee expense	–	816	–	–
Amount due from				
Transaction administrator and administrator fees	1,087	–	44	–
BNM Current accounts	–	–	–	26
Reimbursement of operating expenses	–	9	–	–

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

In addition, the Group's key management personnel received remuneration for services rendered during the financial year. The total compensation paid to the Group's key management personnel for Group level was RM6,634,985 (2009: RM6,886,035).

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

39 CAPITAL COMMITMENTS

	Group	
	2010	**2009**
	RM'000	**RM'000**
Capital expenditure:		
Authorised and contracted for	991	6,386
Authorised but not contracted for	2,092	6,050
Analysed as follows:		
Property and equipment	806	5,973
Computer equipments	2,277	6,463

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 non-cancellable long-term commitments is as follows:

	2010	**2009**
	RM'000	**RM'000**
Maturing within one year	2,428	3,082
One year to five years	6,890	6,302
	9,318	9,384

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 to the effects of fluctuations in the prevailing levels of market interest/profit rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that an unexpected movement in the market interest/profit rates arise.

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

41 MARKET RISK (CONTINUED)

41.1 Interest/Profit Rate Risk (continued)

	Effective interest/ profit rate %	Within one year RM'000	One year to three years RM'000	Three years to five years RM'000	More than five years RM'000	Non-interest/ profit bearing RM'000	Total RM'000
Group							
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
Conventional mortgage assets	4.09	1,613,063	2,188,906	1,909,785	8,319,443	(2,646,625)	11,384,572
Islamic mortgage assets	4.10	848,709	1,153,802	1,119,160	6,282,631	(1,708,111)	7,696,191
Conventional hire purchase assets	4.14	740	48	–	–	(27)	761
Islamic hire purchase assets	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
Unsecured bearer bonds and notes	4.66	1,429,490	1,110,000	2,325,000	5,175,000	–	10,039,490
Islamic bonds	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		4,047	305	–	42,572	395,423	442,347
Total liabilities		3,584,349	6,729,040	5,500,000	12,442,572	395,423	28,651,384
Shareholders' funds		–	–	–	–	3,479,281	3,479,281
Total liabilities and shareholders' funds		3,584,349	6,729,040	5,500,000	12,442,572	3,874,704	32,130,665
Interest/profit sensitivity gap		1,484,369	403,855	2,787,279	3,475,996		
Cumulative gap		1,484,369	1,888,224	4,675,503	8,151,499		

41 MARKET RISK (CONTINUED)

41.1 Interest/Profit Rate Risk (continued)

The table 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-statement of financial position items by time bands. A positive interest/profit rate sensitivity gap exists when more interest/profit sensitive assets than interest/profit sensitive liabilities reprice or mature during a given time period. Similarly, a negative interest/profit rate sensitivity gap exists when more interest/profit sensitive liabilities than interest/profit sensitive assets reprice or mature during a given time period. Any negative interest/profit rate sensitivity gap is to be funded by the Group's shareholders' funds, unsecured bearer notes or money market borrowings.

For decision-making purposes, the Group 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 to be issued to ensure that the Group's assets and liabilities are closely matched within the tolerance limit set by the Board.

The table below summarises the sensitivity of the Group's financial instruments as at 31 December 2010 to interest rate movements. The analysis is based on the assumptions that interest will fluctuate by 100 basis points, with all other variables held constant.

	–100 basis points RM'000	+100 basis points RM'000
Group		
2010		
Available for sale reserve	(20,806)	20,297
Interest rate swap	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 the financial institutions in Malaysia. The financial institutions are governed by the Banking and Financial Institutions Act, 1989 and Islamic Banking Act, 1983 and are subject to periodic reviews by BNM. The following tables summarise the Group's maximum exposure 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 2010	Cash and short-term funds RM'000	Deposits and placement with financial institutions RM'000	AFS investment securities RM'000	Amount due from counter parties RM'000	Islamic financing debts RM'000	Conventional mortgage assets RM'000	Islamic mortgage assets RM'000	Conventional hire purchase assets RM'000	Islamic hire purchase assets RM'000	Other assets RM'000	Total RM'000
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
Individuals	–	–	–	–	–	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

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

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

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

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

42 CREDIT RISK (CONTINUED)

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

Credit risk loans comprise amounts 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 due more than value (before impairment) of credit risk loans.

	Neither past due nor impaired RM'000	Past due but not individually impaired RM'000	Total RM'000	Impairment allowance RM'000	Total carrying value RM'000	Credit risk loan RM'000	Coverage ratio %
Group							
2010							
Amount due from counterparties	4,325,110	–	4,325,110	–	4,325,110	–	–
Islamic financing debt	6,854,347	–	6,854,347	–	6,854,347	–	–
Conventional mortgage assets	11,329,948	120,558	11,450,506	65,934	11,384,572	120,558	55
Islamic mortgage assets	7,686,612	52,822	7,739,434	43,243	7,696,191	52,822	82
Conventional hire purchase assets	775	2	777	16	761	2	>100
Islamic hire purchase assets	25,347	292	25,639	176	25,463	292	60
Total Assets	30,222,139	173,674	30,395,813	109,369	30,286,444	173,674	

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

	2010 Strong RM'000	Total RM'000
Group		
Amount due from counterparties	4,325,110	4,325,110
Islamic financing debt	6,854,347	6,854,347
Conventional mortgage assets	11,329,948	11,329,948
Islamic mortgage assets	7,686,612	7,686,612
Conventional hire purchase assets	775	775
Islamic hire purchase assets	25,347	25,347
Total Assets	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 debt, mortgage assets and hire purchase assets.

42 CREDIT RISK (CONTINUED)

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

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

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

For the purpose of this analysis, an asset is considered past due and included when payment due under strict contractual terms is received late or missed. The amount included is either the entire financial asset, 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 the homogeneous nature of the assets, which allows for statistical techniques to be used, rather than individual assessment.

The Group does not disclose the fair value of underlying assets held as security or other credit enhancements on loans and advances past due but not impaired, as it is not practicable to do so.

The movement in impairment allowance during the financial year were as follows;

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

42 CREDIT RISK (CONTINUED)

42.3 AFS investment securities

AFS investment securities are measured on fair value basis. The Company mainly uses the ratings by external rating agencies mainly by RAM Rating Services Berhad ("RAM") and Malaysian Rating Corporation Berhad ("MARC"). The table below presents an analysis of AFS investment securities external ratings designation as at 31 December 2010;

	← Investment Grade		→	
	GOM RM'000	**AAA RM'000**	**AA1 to AA2 RM'000**	**Total RM'000**
Group				
2010				
Malaysia Government Securities	492,546	–	–	492,546
Government-issued Instruments	97,040	–	–	97,040
Private Debt Securities	–	438,740	101,403	540,143
Negotiable Instruments of Deposit	–	50,014	50,373	100,387
Islamic Private Debt ecurities	–	259,478	–	259,478
Total	589,586	748,232	151,776	1,489,594

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

42.4 Amount due from related company, SPE and holding company

None of these assets is 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 minimise cost of funding.

43.2 Liquidity Pool

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

	Cash and deposits with licensed financial institutions RM'000	**Derivative financial instruments RM'000**	**AFS investment securities RM'000**	**Other available liquidity RM'000**	**Total RM'000**
Group					
As at 31 December 2010	232,510	2,848	1,489,594	30,258,581	31,983,533

43 LIQUIDITY RISK (CONTINUED)

43.3 Contractual maturity of financial liabilities

The table below presents 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 managing the liquidity risk based on a different basis.

	Contractual maturity dates						
	On demand up to 1 month RM'000	One to three months RM'000	Three to twelve months RM'000	One to five years RM'000	Over five years RM'000	Non-Interest sensitive RM'000	Total RM'000
Group							
2010							
Liabilities							
Unsecured bearer bonds and notes	149	207,776	1,147,420	3,745,651	5,663,018	107,255	10,871,269
Islamic bonds	215,702	510,584	1,411,582	6,899,361	4,106,527	116,329	13,260,085
Derivative financial instruments	3,200	5,536	4,621	30,892	6,715	–	50,964
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	111	–	–	–	–	396,348	396,459
Total liabilities	555,872	803,621	3,116,498	14,797,437	14,936,444	619,932	34,829,804

43.4 Derivative liabilities

The Group's derivatives comprise interest rate swaps 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 subsidiary's 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 deemed to be essential for a full understanding of all derivatives. The amount disclosed in the table below are the contractual undiscounted cash flows.

	On demand up to 1 month RM'000	One to three months RM'000	Three to twelve months RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
Group						
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, plant and equipment are excluded, as they do not fall within the scope of FRS 7, 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.

	2010		2009	
	Carrying value RM'000	**Fair value RM'000**	**Carrying value RM'000**	**Fair value RM'000**
Group				
Assets				
Amount due from counterparties	4,325,110	4,331,896	4,657,507	4,690,465
Islamic financing debts	6,854,347	6,883,641	4,578,532	4,574,393
Conventional mortgage assets	11,384,572	12,135,566	12,187,286	12,323,431
Islamic mortgage assets	7,696,191	8,045,000	7,973,299	8,061,492
Conventional hire purchase assets	761	758	2,675	2,683
Islamic hire purchase assets	25,463	25,506	28,375	27,939
	30,286,444	31,422,367	29,427,674	29,680,403
Liabilities				
Unsecured bearer bonds and notes	10,039,490	10,439,339	11,450,880	11,615,999
Islamic bonds	10,651,329	10,792,463	9,154,815	9,186,814
RMBS	4,135,420	4,280,168	4,902,702	4,902,298
IRMBS	3,382,798	3,384,279	3,929,642	3,784,642
	28,209,037	28,896,249	29,438,039	29,489,753

^ Mortgage assets and hire purchase assets are stated at amortised cost and not at fair value, but are subject to assessment of impairment in accordance with FRS 139.

44 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

(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 and RMBS/IRMBS yield to maturity at the statement of financial position date.

(d) AFS investment securities

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

(e) Islamic financing debts

The fair value of the Islamic financing debts is based on the present value of estimated future cash flows discounted at the prevailing market rates of loans with similar credit risk and maturities at the statement of financial position date.

(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 and notes

The estimated fair value of unsecured bearer bonds is based on the estimated future cash flows discounted using current yield curve derived based on the quoted market prices at the 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 subsidiary companies, JV and SPE approximated their book value due to short tenure of less than one year.

(i) RMBS and IRMBS

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

(j) Other financial liabilities

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

(k) Derivative financial instruments

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

45 SEGMENT REPORTING

The chief executive officer (the chief operating decision maker) makes strategic decisions and allocation of resources 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, 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 debts 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 mortgage assets and hire purchase 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 financial year.

	PWR RM'000	PWOR RM'000	Total RM'000
Group			
2010			
External revenue	219,780	899,673	1,119,453
External interest 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)
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	18,792,788	28,651,384
Other information			
Capital expenditure	508	483	991
Depreciation and amortisation	1,196	2,340	3,536

45 SEGMENT REPORTING (CONTINUED)

	PWR RM'000	PWOR RM'000	RM'000
Group			
2009			
External revenue	267,559	886,831	1,154,390
External interest expense	(174,781)	(546,816)	(721,597)
Profit before taxation and zakat	64,874	494,287	559,161
Zakat	(1,534)	(387)	(1,921)
Taxation	(19,197)	(123,354)	(142,551)
Profit by segment	44,143	370,546	414,689
Segment assets	10,872,996	22,021,229	32,894,225
Segment liabilities	8,927,757	20,918,933	29,846,690
Other information			
Capital expenditure	3,085	3,301	6,386
Depreciation and amortisation	2,105	2,252	4,357

46 ANALYSIS OF GROUP'S FINANCIAL POSITION AND PERFORMANCE

ASSETS AND LIABILITIES	Cagamas Holdings Berhad and Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
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
Conventional mortgage assets	7,074,638	4,309,934	–	11,384,572
Islamic mortgage assets	3,992,999	3,703,192	–	7,696,191
Conventional hire purchase assets	761	–	–	761
Islamic hire purchase assets	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	3,981,628	–	(3,981,628)	–
Investment in SPE	–	–	–	–
Amount due from holding company	2	–	(2)	–
Amount due from subsidiary company	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
Islamic bonds	10,651,329	–	–	10,651,329
Derivative financial instruments	46,813	–	–	46,813
Residential mortgage-backed securities	–	4,135,420	–	4,135,420
Islamic residential mortgage-backed securities	–	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

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

ASSETS AND LIABILITIES	Cagamas Holdings Berhad and Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
2009				
ASSETS				
Cash and short-term funds	521,691	262,180	–	783,871
Deposits and placements with financial institutions	200,000	289,052	–	489,052
Derivative financial instruments	10,725	–	–	10,725
AFS investment securities	865,261	1,172,919	–	2,038,180
Amounts due from counterparties	4,657,507	–	–	4,657,507
Islamic financing debts	4,578,532	–	–	4,578,532
Conventional mortgage assets	7,494,464	4,692,822	–	12,187,286
Islamic mortgage assets	4,093,516	3,879,783	–	7,973,299
Islamic hire purchase assets	28,375	–	–	28,375
Conventional hire purchase assets	2,675	–	–	2,675
Amount due from holding company	2	–	(2)	–
Amount due from SPE	51	–	–	51
Amount due from a related company	1,088	–	(1,088)	–
Amount due from JV	9	–	–	9
Other assets	7,318	43,156	–	50,474
Property and equipment	6,253	–	–	6,253
Intangible assets	15,606	–	–	15,606
Deferred taxation	21,465	–	–	21,465
Investment in subsidiary and SPE	3,981,628	–	(3,981,628)	–
Interest in a JV	50,000	–	865	50,865
TOTAL ASSETS	26,536,166	10,339,912		32,894,225
LIABILITIES				
Unsecured bearer bonds and notes	11,450,880	–	–	11,450,880
Islamic bonds	9,154,815	–	–	9,154,815
Derivative financial instruments	52,507	–	–	52,507
Residential mortgage-backed securities	–	4,902,702	–	4,902,702
Islamic residential mortgage-backed securities	–	3,929,642	–	3,929,642
Deferred taxation	–	298,290	–	298,290
Provision for taxation	39,822	4,371	–	44,193
Other liabilities	13,544	117	–	13,661
Amount due to a subsidiary/related company	3	1,087	(1,090)	–
TOTAL LIABILITIES	20,711,571	9,136,209		29,846,690

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

INCOME STATEMENTS	Cagamas Holdings Berhad and Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
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	(2,875)	240,179
Non-interest income	159,242	114	(172,612)	(13,256)
	528,578	294,589		647,680
Administration and general expenses	(19,296)	(10,277)	12,152	(17,421)
Personnel cost	(20,701)	–	–	(20,701)
Share of profit in a JV company	–	–	922	922
	488,581	284,312		610,480
Allowance for impairment losses	–	–	–	–
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

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

INCOME STATEMENTS	Cagamas Holdings Berhad and Cagamas RM'000	CMBS RM'000	Consolidation adjustments RM'000	Total RM'000
2009				
Interest income	735,791	418,599	–	1,154,390
Interest expense	(474,797)	(246,800)	–	(721,597)
Income from Islamic operations	111,336	134,952	(2,745)	243,543
Non-interest income	26,575	–	(40,086)	(13,511)
	398,905	306,751		662,825
Administration and general expenses	(19,750)	(11,168)	12,831	(18,087)
Personnel cost	(21,020)	–	–	(21,020)
Share of profit in a JV company	–	–	869	869
	358,135	295,583		624,587
Allowance for impairment losses	(33,624)	(31,802)	–	(65,426)
PROFIT BEFORE TAXATION AND ZAKAT	324,511	263,781		559,161
Zakat	(1,921)	–	–	(1,921)
Taxation	(84,106)	(65,945)	7,500	(142,551)
PROFIT FOR THE FINANCIAL YEAR	238,484	197,836		414,689

47 CAPITAL ADEQUACY

The Group and 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 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.

47 CAPITAL ADEQUACY (CONTINUED)

The Group and 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 Company's management, employing techniques based on the guidelines developed by the Basel Committee and as implemented by BNM, for supervisory purposes.

The Group and Company maintains a ratio of total regulatory capital to its risk weighted assets (the "Basel ratio") above the minimum level required by BNM for financial institutions which takes into account the risk profile of the Group and Company.

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.

(b) Tier 2 capital: comprise collective impairment allowances on mortgage assets and hire purchase assets and unrealized gains arising from fair valuation of equity instruments held as available-for-sale.

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	
	2010 RM'000	**2009 RM'000**
The capital adequacy ratios are as follows:		
Tier I capital		
Paid-up capital	150,000	150,000
Other reserves	3,354,806	2,921,597
	3,504,806	3,071,597
Deferred tax liabilities	363,619	276,825
Total Tier I capital	3,868,425	3,348,422
Tier II capital		
Allowance for impairment losses	109,368	109,368
Total Tier II capital	109,368	109,368
Total capital base	3,977,793	3,457,790
Capital ratios:		
Core capital ratio	26.0%	20.9%
Risk weighted capital ratio	26.8%	21.6%

47 CAPITAL ADEQUACY (CONTINUED)

	Note	Group 2010 RM'000	Group 2009 RM'000
Breakdown of risk-weighted assets in the various categories of risk-weights is as follows:			
0%		660,783	217,436
10%		26,176	127,047
20%		11,473,049	11,035,959
50%		23,361,088	24,955,303
100%		885,826	1,293,568
		36,406,922	37,629,313
Total risk-weighted assets		14,863,598	15,991,117

48 ISLAMIC OPERATIONS

Statement of Financial Positions as at 31 December 2010

	Note	2010 RM'000	2009 RM'000
ASSETS			
Cash and short-term funds	(a)	48,200	185,998
Deposits and placements with financial institutions	(b)	–	258,011
AFS investment securities	(c)	414,953	877,317
Islamic financing debts	(d)	6,854,347	4,578,532
Islamic mortgage assets	(e)	7,696,191	7,973,299
Islamic hire purchase assets	(f)	6,689	–
Other assets and prepayments		310,083	301,022
TOTAL ASSETS		15,330,463	14,174,179
LIABILITIES			
Islamic bonds	(g)	10,651,329	9,154,815
IRMBS	(h)	3,382,798	3,929,642
Deferred taxation		157,152	120,873
Provision taxation		–	4,776
Other liabilities	(i)	8,901	9,499
TOTAL LIABILITIES		14,200,180	13,219,605
ISLAMIC OPERATIONS' FUNDS		1,130,283	954,574
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		15,330,463	14,174,179

48 ISLAMIC OPERATIONS (CONTINUED)

Income Statements
for the financial year ended 31 December 2010

	Note	Group 2010 RM'000	Group 2009 RM'000
Total income attributable		400,675	414,751
Income attributable to the bondholders	(j)	(157,621)	(168,463)
Income attributable to the shareholders	(k)	243,054	246,288
Administration and general expenses		(2,875)	(2,745)
		240,179	243,543
Allowance for impairment losses		–	(30,711)
PROFIT BEFORE TAXATION AND ZAKAT		240,179	212,832
Zakat		(836)	(1,921)
Taxation		(63,734)	(48,524)
PROFIT FOR THE FINANCIAL YEAR		175,609	162,387

Statement of Comprehensive Income
for the financial year ended 31 December 2010

	2010 RM'000	2009 RM'000
Profit for the financial year	175,609	162,387
Other comprehensive income:		
AFS investment securities:		
Net gain on fair value changes before tax	138	324
Deferred taxation	(38)	(75)
Other comprehensive income for the financial year, net of tax	100	249
Total comprehensive income for the financial year	175,709	162,636

48 ISLAMIC OPERATIONS (CONTINUED)

Statements of Changes in Islamic Operations' Funds for the financial year ended 31 December 2010

	Allocated capital funds RM'000	AFS reserve RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2010	294,159	746	659,669	954,574
Profit for the financial year	–	–	175,609	175,609
Other comprehensive income	–	100	–	100
Total comprehensive income for the financial year	–	100	175,609	175,709
Balance as at 31 December 2010	294,159	846	835,278	1,130,283
Balance as at 1 January 2009	294,159	497	497,282	791,938
Profit for the financial year	–	–	162,387	162,387
Other comprehensive income	–	249	–	249
Total comprehensive income for the financial year	–	249	162,387	162,636
Balance as at 31 December 2009	294,159	746	659,669	954,574

48 ISLAMIC OPERATIONS (CONTINUED)

Statements of Cash Flow
For the Financial Year Ended 31 December 2010

	Note	Group 2010 RM'000	Group 2009 RM'000
OPERATING ACTIVITIES			
Profit for the financial year		175,609	162,387
Adjustments for investment items and items not involving the movement of cash and cash equivalents:			
Amortisation of premium less accretion of discount on Islamic debt securities		(1,184)	(2,682)
Accretion of discount on Islamic mortgage assets		(188,845)	(187,497)
Accretion of discount on Islamic hire purchase assets		(354)	–
Accretion of discount on Islamic commercial papers		2,377	58
Income from Islamic debt securities		(190,315)	–
Income from Islamic operations		(432,348)	(169,297)
Profit attributable to Islamic bondholders		569,752	168,156
Amortisation of premium less accretion of discount on AFS investment securities		709	1,534
Allowance for impairment losses		–	30,711
Wakalah fee expense		175	374
Gain on disposal of AFS investment securities		–	(22)
Taxation		60,681	48,524
Zakat		836	1,921
Operating (loss)/profit before working capital changes		(2,907)	54,167
(Increase)/decrease in Islamic financing debts		(2,275,815)	1,076,601
Decrease/(increase) in Islamic mortgage assets		465,953	(1,507,751)
Increase in Islamic hire purchase assets		(6,335)	–
Decrease/(increase) in other assets and prepayments		3,317	(4,555)
Increase in Islamic bonds		1,470,505	591,573
Decrease in IRMBS		(545,000)	–
Decrease in other liabilities		(7,850)	(6,554)
Cash (utilised in)/generated from operations		(898,132)	203,481
Income received from Islamic assets		615,260	168,225
Profit paid to Islamic bondholders		(547,964)	(168,378)
Wakalah fee paid		–	(543)
Payment of zakat		(1,702)	(2,105)
Payment of taxation		(26,286)	(27,576)
Net cash (utilised in)/generated from operating activities		(858,824)	173,104

48 ISLAMIC OPERATIONS (CONTINUED)

Statements of Cash Flow
for the financial year ended 31 December 2010 (continued)

	Note	Group 2010 RM'000	Group 2009 RM'000
INVESTING ACTIVITIES			
Purchase of AFS investments securities		(872,230)	(1,960,825)
Sale of AFS investment securities		1,335,070	1,617,695
Income received from AFS investment securities		175	1,071
Net cash generated from/(utilised in) investing activities		463,015	(342,059)
Net decrease in cash and cash equivalents		(395,809)	(168,955)
Cash and cash equivalents as at beginning of the financial year		444,009	612,964
Cash and cash equivalents as at end of the financial year		48,200	444,009
Analysis of cash and cash equivalents:			
Cash and short-term funds	(a)	48,200	185,998
Deposits and placements with financial institutions	(b)	–	258,011
		48,200	444,009

(a) CASH AND SHORT-TERM FUNDS

	2010 RM'000	2009 RM'000
Cash and balances with banks and other financial institutions	47	37
Mudharabah money at call and deposit placements maturing within one month	48,153	185,961
	48,200	185,998

(b) DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2010 RM'000	2009 RM'000
Licensed banks	–	258,011

48 ISLAMIC OPERATIONS (CONTINUED)

(c) AFS INVESTMENT SECURITIES

	Group	
	2010	**2009**
	RM'000	**RM'000**
At fair value:		
Malaysian Government investment issue	147,966	46,377
Khazanah bonds	–	35,346
Negotiable debt securities	5,073	–
Islamic debt securities	211,948	495,681
Islamic negotiable instrument of deposits	42,461	299,913
Malaysian Islamic treasury bills	7,505	–
	414,953	877,317

The maturity structure of AFS investment securities is as follows:

Maturing within one year	152,086	690,856
One year to three years	200,180	154,988
Three years to five years	62,687	31,473
	414,953	877,317

(d) ISLAMIC FINANCING DEBTS

Islamic house financing debts	553,644	1,845,048
Islamic hire purchase debts	2,587,283	1,684,150
Islamic personal financing	3,713,420	1,049,334
	6,854,347	4,578,532

The maturity structure of Islamic financing debts is as follows:

Maturing within one year	702,765	1,833,335
One year to three years	1,284,009	1,242,856
Three years to five years	3,567,540	1,502,341
More than five years	1,300,033	–
	6,854,347	4,578,532

48 ISLAMIC OPERATIONS (CONTINUED)

(e) ISLAMIC MORTGAGE ASSETS

	Group 2010 RM'000	Group 2009 RM'000
Islamic mortgage assets:		
PWOR	7,696,191	7,973,299

The maturity structure of Islamic mortgage assets is as follows:

	2010 RM'000	2009 RM'000
Maturing within one year	848,709	643,228
One year to three years	1,153,802	1,111,028
Three years to five years	1,119,160	1,097,639
More than five years	6,282,632	6,875,140
	9,404,303	9,727,035
Less: Unaccreted discount	(1,664,869)	(1,710,493)
Allowance for impairment losses	(43,243)	(43,243)
	7,696,191	7,973,299

(f) ISLAMIC HIRE PURCHASE ASSETS

	2010 RM'000	2009 RM'000
Islamic hire purchase assets:		
PWOR	6,689	–

The maturity structure of Islamic hire purchase assets is as follows:

	2010 RM'000	2009 RM'000
Maturing within one year	1,842	–
One year to three years	3,136	–
Three years to five years	2,034	–
More than five years	148	–
	7,160	–
Less: Unaccreted discount	(365)	–
Allowance for impairment losses	(106)	
	6,689	–

(g) ISLAMIC BONDS

	2010 RM'000	2009 RM'000
Bithaman Ajil Islamic securities	487,915	1,485,940
Islamic medium term notes	9,858,482	7,289,447
Islamic commercial papers	304,932	379,428
	10,651,329	9,154,815

The maturity structure of Islamic bonds is as follows:

	2010 RM'000	2009 RM'000
Maturing within one year	1,822,594	3,861,900
One year to three years	4,458,735	2,022,915
Three years to five years	1,345,000	525,000
More than five years	3,025,000	2,745,000
	10,651,329	9,154,815

48 ISLAMIC OPERATIONS (CONTINUED)

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

	Group 2010 RM'000	Group 2009 RM'000
IRMBS	3,382,798	3,929,642

The maturity structure of the IRMBS is as follows:

	2010 RM'000	2009 RM'000
Maturing within one year	17,798	564,642
One year to three years	515,000	515,000
Three years to five years	785,000	270,000
More than five years	2,065,000	2,580,000
	3,382,798	3,929,642

(i) OTHER LIABILITIES

	2010 RM'000	2009 RM'000
Zakat	1,785	2,651
Other liabilities	7,116	6,848
	8,901	9,499

(j) INCOME ATTRIBUTABLE TO THE BONDHOLDERS

	2010 RM'000	2009 RM'000
Income from Islamic mortgage assets	157,621	168,156
Income from Islamic financing debts	–	259
Income from AFS investment securities	–	(9)
Income from deposits and placements with financial institutions	–	57
	157,621	168,463

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

	2010 RM'000	2009 RM'000
Mudharabah	–	307
Musyarakah	157,621	168,156
	157,621	168,463

48 ISLAMIC OPERATIONS (CONTINUED)

(k) INCOME ATTRIBUTABLE TO THE SHAREHOLDERS

	Group 2010 RM'000	Group 2009 RM'000
Income from Islamic mortgage assets	199,142	219,383
Income/(expenses) from Islamic financing debts	23,092	(302)
Income from AFS investment securities	15,572	14,084
Income from deposits and placements with financial institutions	5,248	13,123
	243,054	246,288

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

	2010 RM'000	2009 RM'000
Bai Al-Dayn	222,234	219,223
Mudharabah	8,312	13,412
Bai Bithaman Ajil	4,434	3,082
Murabahah	3,136	6,913
Musyarakah	4,431	2,514
Qard Al-Hasan	–	67
Bai Al-Inah	479	1,077
Ijarah	28	–
	243,054	246,288

(l) CAPITAL ADEQUACY

	2010 RM'000	2009 RM'000
Tier I capital		
Allocated capital funds	294,159	294,159
Other reserves	864,808	659,669
	1,158,967	953,828
Deferred tax liabilities	120,910	120,873
Total Tier I capital	1,279,877	1,074,701
Tier II capital		
Allowance for impairment losses	43,243	43,243
Total Tier II capital	43,243	43,243
Total capital base	1,323,120	1,117,944
Capital ratios:		
Core capital ratio	20.8%	17.2%
Risk weighted capital ratio	21.5%	17.9%

48 ISLAMIC OPERATIONS (CONTINUED)

(l) CAPITAL ADEQUACY

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

	Group	
	2010	**2009**
	RM'000	**RM'000**
0%	443,527	335,455
10%	14	15,166
20%	7,114,947	5,615,920
50%	9,361,059	9,818,887
100%	55,274	222,546
	16,974,821	16,007,974
Total risk-weighted assets	6,158,794	6,256,690

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

(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 EVENT AFTER STATEMENT OF FINANCIAL POSITION DATE

The Group has been mandated by the Government of Malaysia to undertake the housing scheme known as Skim Rumah Pertamaku ("SRP") announced by the Prime Minister during 2011 budget presentation.

A separate entity known as Cagamas SRP Berhad ("CSRP") has been incorporated as a subsidiary of Cagamas Holdings Berhad, with RM100 million paid up capital to manage and facilitate the scheme. Under the scheme, up to 10% of the down payment for purchase of first homes below RM220,000 by first time buyers with household income of less than RM3,000 per month will be guaranteed by CSRP. The scheme is aimed to promote purchases of homes by young adults who have recently joined the workforce.

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, two of the Directors of Cagamas Holdings Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 75 to 145 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2010 and of the results and cash flows of the Group and the Company for the financial year ended on that date in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

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

DATO' OOI SANG KUANG
CHAIRMAN

DATUK GEORGE RATILAL
DIRECTOR

Statutory Declaration

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

I, Choy Khai Choon, the Officer primarily responsible for the financial management of Cagamas Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 75 to 145 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 1 April 2011, before me.

AHMAD B. LAYA
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 75 to 145, which comprise the statement of financial position as at 31 December 2010 of the Group and Company, and the statements of income, comprehensive income, changes in equity and cash flows of the 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 gives 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, and 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 judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2010 and of their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

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

Kuala Lumpur
1 April 2011