

Company No	
157931	A

CAGAMAS BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Lodged by:
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STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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CAGAMAS BERHAD
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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 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Company consist of the purchases of mortgage loans, personal loans and hire purchase and leasing debts from primary lenders approved by the Company and the issuance of bonds and notes to finance these purchases. The Company also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk. Subsidiary companies of the Company are Cagamas Global PLC ("CGP") and Cagamas Global Sukuk Berhad ("CGS"):

- CGP is a conventional fund raising vehicle incorporated in Labuan. Its main principal activities is to undertake the issuance of bonds and notes in foreign currency.
- CGS is an Islamic fund raising vehicle. Its main principal activities is to undertake the issuance of Sukuk in foreign currency.

There were no other significant changes in the nature of these activities during the financial year, other than declared above.

SUBSIDIARIES

Details of subsidiaries are set out in Note 18 to the financial statements.

FINANCIAL RESULTS

	<u>Group</u> RM'000	<u>Company</u> RM'000
Profit for the financial year	<u>255,036</u>	<u>253,476</u>

DIVIDEND

The dividends paid by the Company since 31 December 2015 were as follows:

In respect of the financial year ended 31 December 2015,	RM'000
- a final dividend of 15 sen per share on 150,000,000 ordinary shares paid on 29 March 2016	22,500
In respect of the financial year ended 31 December 2016,	
- an interim dividend of 5 sen per share on 150,000,000 ordinary shares paid on 7 November 2016	7,500
	<u>30,000</u>

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DIRECTORS' REPORT (CONTINUED)

DIVIDEND (CONTINUED)

The Directors now recommend the payment of a final dividend of 15 sen per share on 150,000,000 ordinary shares amounting to RM22,500,000 for the financial year ended 31 December 2016 which is subject to approval of the member at the forthcoming Annual General Meeting of the Company.

SHARE CAPITAL

There was no change in the authorised, issued and paid-up capital of the Company during the financial year.

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 Cagamas Berhad. Malaysian Rating Corporation Berhad ("MARC") has assigned ratings of AAA/AAA_{ID} and MARC-1/MARC-1_{ID} to the bonds, notes and Sukuk issued by the Company. Moody's Investors Service ("Moody's") has also assigned a rating of A3 to the Company's long-term local and foreign currency issuer rating.

In addition, RAM and Moody's have maintained the ratings of ⁹A2(s) and A3 respectively to the USD2.5 billion Multicurrency Medium Term Note ("EMTN") Programme and USD2.5 billion Multicurrency Sukuk Programme issued by its subsidiaries.

RELATED PARTY TRANSACTIONS

Most of the transactions of the Group and the Company involving mortgage loans, hire purchase and leasing debts, available-for-sale ("AFS") investment securities, Islamic financing facilities as well as issuance of unsecured bonds and Sukuk are done with various financial institutions including those who are substantial shareholders of CHB and subsidiaries of the Company.

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CAGAMAS BERHAD

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The Directors who served since the date of the last report are:

Dato' Ooi Sang Kuang (Chairman)
Dato' Albert Yeoh Beow Tit (retired on 28.3.2016)
Tang Wing Chew (resigned on 1.3.2017)
Dato' Halipah binti Esa
Dr. Roslan A. Ghaffar
Dato' Md Agil bin Mohd Natt
Philip Tan Puay Koon
Nik Mohd Hasyudeen Yusoff (appointed on 1.7.2016, resigned on 1.1.2017)
Dato' Wee Yiau Hin (appointed on 1.7.2016)
Datuk Chung Chee Leong
Shaik Abdul Rasheed bin Abdul Ghaffour (appointed on 1.1.2017)
Nazrul Hisyam Mohd Noh (appointed on 1.1.2017)

In accordance with Articles 19.13 and 19.14 of the Company's Articles of Association, Dato' Md Agil bin Mohd Natt and Dato' Halipah binti Esa retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

In accordance with Article 19.10 of the Company's Articles of Association Dato' Wee Yiau Hin, Shaik Abdul Rasheed bin Abdul Ghaffour and Nazrul Hisyam Mohd Noh who vacate office at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS AND REMUNERATION

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit and remuneration (other than the aggregate amount of emoluments shown under Directors' remuneration as disclosed in Note 30 to the financial statements) by reason of a contract made by the Group or the Company or by a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial year was the Company or any of its subsidiaries a party to any arrangements whose object was to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Company or its subsidiaries or its holding company or subsidiaries of the holding company during the financial year.

CAGAMAS BERHAD
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DIRECTORS' REPORT (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements of the Group and the Company were prepared, 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 be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Group and of the Company had been written down to an amount which the current assets might be expected so to realise.

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

- (a) which would render the amounts to be written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.

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

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

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

At 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.

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DIRECTORS' REPORT (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

In the opinion of the Directors:

- (a) the results of the operations of the Group and the Company 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.

ULTIMATE HOLDING COMPANY

The Directors regard Cagamas Holdings Berhad, a company incorporated in Malaysia, as the ultimate holding company.

AUDITORS' REMUNERATION

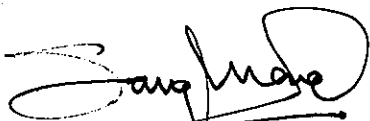
Details of auditors' remuneration are set out in Note 29 in the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to accept re-appointment as auditors.

This report was approved by the Board of Directors on **17 MAR 2017**

Signed on behalf of the Board of Directors:



DATO' OOI SANG KUANG
CHAIRMAN



DATUK CHUNG CHEE LEONG
DIRECTOR

CAGAMAS BERHAD
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STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		<u>Group</u>		<u>Company</u>	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
ASSETS					
Cash and short-term funds	5	409,396	243,912	405,476	243,789
Derivative financial instruments	6	887,826	678,847	887,826	678,847
AFS investment securities	7	1,650,518	1,793,617	1,650,518	1,793,617
Amount due from counterparties	8	14,296,165	10,970,979	14,296,165	10,970,979
Islamic financing assets	9	5,307,689	5,581,449	5,307,689	5,581,449
Mortgage assets					
- Conventional	10	6,238,337	6,781,767	6,238,337	6,781,767
- Islamic	11	6,662,093	7,006,642	6,662,093	7,006,642
Hire purchase assets					
- Conventional		-	4	-	4
- Islamic	12	1,924	4,105	1,924	4,105
Amount due from					
- Related company		436	559	436	559
- Subsidiaries	13	-	-	4,951	7,344
Other assets	14	9,153	9,163	9,102	9,120
Property and equipment	15	2,892	2,968	2,892	2,968
Intangible assets	16	14,032	7,728	14,032	7,728
Deferred taxation	17	8,365	-	8,365	-
Investment in subsidiaries	18	-	-	-*	-*
TOTAL ASSETS		35,488,826	33,081,740	35,489,806	33,088,918
LIABILITIES					
Unsecured bearer bonds and notes	19	20,946,586	17,994,724	15,080,427	13,264,908
Sukuk	20	11,214,913	11,944,033	10,746,160	11,448,950
Loans/financing from subsidiaries	21	-	-	6,340,542	5,235,440
Derivative financial instruments	6	33,825	35,240	33,825	35,240
Provision for taxation		15,668	23,478	15,648	23,458
Deferred taxation	17	-	29	-	29
Other liabilities	22	61,796	69,040	60,804	67,775
TOTAL LIABILITIES		32,272,788	30,066,544	32,277,406	30,075,800
Share capital	23	150,000	150,000	150,000	150,000
Reserves	24	3,066,038	2,865,196	3,062,400	2,863,118
SHAREHOLDER'S FUNDS		3,216,038	3,015,196	3,212,400	3,013,118
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		35,488,826	33,081,740	35,489,806	33,088,918
NET TANGIBLE ASSETS PER SHARE (RM)	25	21.34	20.05	21.32	20.04

*denotes USD1 in CGP and RM2 in CGS.

The accompanying notes form an integral part of these financial statements.

CAGAMAS BERHAD
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INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest income	26	1,051,533	883,729	1,051,533	883,729
Interest expense	27	(782,991)	(596,286)	(786,739)	(599,971)
Income from Islamic operations	43	139,314	143,207	141,107	144,198
Non-interest expense	28	(33,470)	(26,954)	(33,467)	(26,916)
		<u>374,386</u>	<u>403,696</u>	<u>372,434</u>	<u>401,040</u>
Administration and general expenses		(24,925)	(25,722)	(24,553)	(25,083)
Personnel costs		(25,488)	(26,442)	(25,488)	(26,442)
OPERATING PROFIT		<u>323,973</u>	<u>351,532</u>	<u>322,393</u>	<u>349,515</u>
Write-back/(allowance) of impairment losses		<u>8,062</u>	<u>(8,122)</u>	<u>8,062</u>	<u>(8,122)</u>
PROFIT BEFORE TAXATION AND ZAKAT	29	<u>332,035</u>	<u>343,410</u>	<u>330,455</u>	<u>341,393</u>
Zakat		(1,011)	(2,777)	(1,011)	(2,777)
Taxation	31	(75,988)	(85,085)	(75,968)	(85,065)
PROFIT FOR THE FINANCIAL YEAR		<u><u>255,036</u></u>	<u><u>255,548</u></u>	<u><u>253,476</u></u>	<u><u>253,551</u></u>
EARNINGS PER SHARE (SEN)	25	<u><u>170.02</u></u>	<u><u>170.37</u></u>	<u><u>168.98</u></u>	<u><u>169.03</u></u>
DIVIDEND PER SHARE (SEN)	32	<u><u>20.00</u></u>	<u><u>11.00</u></u>	<u><u>20.00</u></u>	<u><u>11.00</u></u>

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**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit for the financial year		255,036	255,548	253,476	253,551
Other comprehensive (loss)/income:					
Items that may be subsequently reclassified to profit or loss					
AFS investment securities					
- Net gain/(loss) on fair value changes before taxation		5,405	(2,747)	5,405	(2,747)
- Deferred taxation		(1,297)	494	(1,297)	494
Cash flow hedge					
- Net (loss)/gain on cash flow hedge before taxation		(37,225)	32,252	(37,225)	32,252
- Deferred taxation		8,923	(7,624)	8,923	(7,624)
Other comprehensive (loss)/income for the financial year, net of taxation		(24,194)	22,375	(24,194)	22,375
Total comprehensive income for the financial year		230,842	277,923	229,282	275,926

The accompanying notes form an integral part of these financial statements

CAGAMAS BERHAD
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

		Issued and fully paid ordinary shares of RM1 each	Non-distributable				Total equity RM'000
	Note	Share capital RM'000	AFS reserves RM'000	Cash flow hedge reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000	
Balance as at 1 January 2016		150,000	(14,637)	15,938	189,647	2,674,248	3,015,196
Profit for the financial year		-	-	-	-	255,036	255,036
Other comprehensive income/(loss)		-	4,108	(28,302)	-	-	(24,194)
Total comprehensive income/(loss) for the financial year		-	4,108	(28,302)	-	255,036	230,842
Transfer to retained profits during the financial year		-	-	-	(16,083)	16,083	
Final dividend in respect of financial year ended 31 December 2015	32	-	-	-	-	(22,500)	(22,500)
Interim dividend in respect of financial year ended 31 December 2016	32	-	-	-	-	(7,500)	(7,500)
Balance as at 31 December 2016		150,000	(10,529)	(12,364)	173,564	2,915,367	3,216,038

The accompanying notes form an integral part of these financial statements.

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

		Issued and fully paid ordinary shares of RM1 each	Non-distributable				Total equity RM'000
	Note	Share capital RM'000	AFS reserves RM'000	Cash flow hedge reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000	
Balance as at 1 January 2015		150,000	(12,384)	(8,690)	-	2,624,847	2,753,773
Profit for the financial year		-	-	-	-	255,548	255,548
Other comprehensive (loss)/income		-	(2,253)	24,628	-	-	22,375
Total comprehensive (loss)/income for the financial year		-	(2,253)	24,628	-	255,548	277,923
Transfer to regulatory reserve during the financial year		-	-	-	189,647	(189,647)	-
Final dividend in respect of financial year ended 31 December 2014	32	-	-	-	-	(9,000)	(9,000)
Interim dividend in respect of financial year ended 31 December 2015	32	-	-	-	-	(7,500)	(7,500)
Balance as at 31 December 2015		150,000	(14,637)	15,938	189,647	2,674,248	3,015,196

The accompanying notes form an integral part of these financial statements.

CAGAMAS BERHAD
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**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

Company	Note	Issued and fully paid ordinary shares of RM1 each	Non-distributable				Total equity RM'000
			AFS reserves RM'000	Cash flow hedge reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000	
Balance as at 1 January 2016		150,000	(14,637)	15,938	189,647	2,672,170	3,013,118
Profit for the financial year		-	-	-	-	253,476	253,476
Other comprehensive income/ (loss)		-	4,108	(28,302)	-	-	(24,194)
Total comprehensive income/(loss) for the financial year		-	4,108	(28,302)	-	253,476	229,282
Transfer to retained profits during the financial year		-	-	-	(16,083)	16,083	-
Final dividend in respect of financial year ended 31 December 2015	32	-	-	-	-	(22,500)	(22,500)
Interim dividend in respect of financial year ended 31 December 2016	32	-	-	-	-	(7,500)	(7,500)
Balance as at 31 December 2016		150,000	(10,529)	(12,364)	173,564	2,911,729	3,212,400

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**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

Company	Note	Issued and fully paid ordinary shares of RM1 each	Non-distributable					Total equity RM'000
			Share capital RM'000	AFS reserves RM'000	Cash flow hedge reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000	
Balance as at 1 January 2015		150,000		(12,384)	(8,690)	-	2,624,766	2,753,692
Profit for the financial year		-	-	-	-	-	253,551	253,551
Other comprehensive (loss)/income		-	(2,253)	24,628	-	-	-	22,375
Total comprehensive (loss)/income for the financial year		-	(2,253)	24,628	-	-	253,551	275,926
Transfer to regulatory reserve during the financial year		-	-	-	189,647	(189,647)	-	-
Final dividend in respect of financial year ended- 31 December 2014	32	-	-	-	-	(9,000)	(9,000)	(9,000)
Interim dividend in respect of financial year ended- 31 December 2015	32	-	-	-	-	(7,500)	(7,500)	(7,500)
Balance as at 31 December 2015		150,000	(14,637)	15,938	189,647	2,672,170	3,013,118	

The accompanying notes form an integral part of these financial statements.

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STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Note	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
OPERATING ACTIVITIES				
Profit for the financial year	255,036	255,548	253,476	253,551
Adjustments for the investment items and items not involving the movement of cash and cash equivalents:				
Amortisation of premium less accretion of discount on AFS investment securities	(8,201)	(7,721)	(8,201)	(7,721)
Accretion of discount on:				
Mortgage assets				
- Conventional	(129,457)	(156,893)	(129,457)	(156,893)
- Islamic	(112,838)	(125,493)	(112,838)	(125,493)
Hire purchase assets				
- Islamic	(78)	(182)	(78)	(182)
(Write-back)/allowance for impairment losses on mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets	(8,062)	8,122	(8,062)	8,122
Reclassification adjustment on fair value gains on CCS, transfer from equity	(247,650)	(571,227)	(247,650)	(571,227)
Unrealised loss on foreign exchange	246,478	573,403	246,475	573,365
Interest income	(907,703)	(715,229)	(907,703)	(715,229)
Income from Islamic operations	(560,558)	(538,873)	(560,558)	(538,873)
Interest expense	644,062	486,870	802,293	601,891
Profit attributable to Sukuk holders	519,593	519,142	519,593	519,142
Depreciation of property and equipment	1,132	1,090	1,132	1,090
Amortisation of intangible assets	1,407	1,506	1,407	1,506
Loss on disposal of property and equipment	10	1	10	1
Gain on disposal of AFS investment securities	(3,863)	(3,568)	(3,863)	(3,568)
Wakalah fee expense	-	37	-	37
Taxation	75,988	85,085	75,968	85,065
Zakat	1,011	2,777	1,011	2,777
Operating loss before working capital changes	(233,693)	(185,605)	(77,045)	(72,639)

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STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

Note	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Increase in amount due from counterparties	(3,283,417)	(4,404,892)	(3,283,417)	(4,404,892)
Decrease in Islamic financing assets	275,436	947,574	275,436	947,574
Decrease in mortgage assets				
- Conventional	634,948	683,682	634,948	683,682
- Islamic	454,812	431,411	454,812	431,411
Decrease in hire purchase assets				
- Conventional	3	-	3	-
- Islamic	2,300	1,798	2,300	1,798
Decrease/(increase) in other assets	132	3,264	2,534	(457)
Increase in unsecured bearer bonds and notes	2,922,718	4,681,962	1,786,376	3,000,985
Decrease in Sukuk	(729,474)	(1,299,313)	(703,143)	(1,792,040)
Decrease in deposits and placements of financial institution	-	(30,003)	-	(30,003)
Increase in loans/financing from subsidiary	-	-	1,098,389	2,168,282
Increase in derivatives	(190,029)	(533,174)	(190,023)	(533,505)
Decrease in other liabilities	(5,474)	(11,626)	(5,205)	(9,388)
Cash (utilised in)/generated from operations	(151,738)	285,078	(4,035)	390,808
Interest received	1,006,815	707,006	1,006,815	707,006
Profit received from Islamic assets	599,620	578,861	599,620	578,861
Interest paid	(827,438)	(599,670)	(978,958)	(705,522)
Profit paid on derivatives	(40,177)	(20,322)	(40,177)	(20,322)
Profit attributable to Sukuk holders	(519,864)	(539,964)	(519,864)	(539,964)
Payment of:				
- Zakat	(2,777)	(4,112)	(2,777)	(4,112)
- Taxation	(84,565)	(62,333)	(84,545)	(62,333)
Net cash (utilised in)/generated from operating activities	(20,124)	344,544	(23,921)	344,422

CAGAMAS BERHAD
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STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	Note	2016 RM'000	Group 2015 RM'000	2016 RM'000	Company 2015 RM'000
INVESTING ACTIVITIES					
Purchase of AFS investment securities		(2,391,852)	(1,701,204)	(2,391,852)	(1,701,204)
Proceeds from sale/redemption of AFS investment securities		2,551,418	1,468,163	2,551,418	1,468,163
Purchase of:					
- Property and equipment		(1,068)	(842)	(1,068)	(842)
- Intangible assets		(7,711)	(1,034)	(7,711)	(1,034)
Income received from AFS investment securities		62,775	18,517	62,775	18,517
Income received from Sukuk		2,046	35,909	2,046	35,909
Net cash generated from/(utilised in) investing activities		215,608	(180,491)	215,608	(180,491)
FINANCING ACTIVITY					
Dividends paid to shareholders		(30,000)	(16,500)	(30,000)	(16,500)
Net cash utilised in financing activity		(30,000)	(16,500)	(30,000)	(16,500)
Net increase in cash and cash equivalents		165,484	147,553	161,687	147,431
Cash and cash equivalents as at 1 January		243,912	96,359	243,789	96,358
Cash and cash equivalents as at 31 December		409,396	243,912	405,476	243,789
Analysis of cash and cash equivalents as at 31 December:					
Cash and short-term funds	5	409,396	243,912	405,476	243,789

The accompanying notes form an integral part of these financial statements.

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The principal activities of the Company consist of the purchases of mortgage loans, personal loans and hire purchase and leasing debts from primary lenders approved by the Company and the issuance of bonds and notes to finance these purchases. The Company also purchases Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk. Subsidiary companies of the Company are Cagamas Global PLC ("CGP") and Cagamas Global Sukuk Berhad ("CGS"):

- CGP is a conventional fund raising vehicle incorporated in Labuan. Its main principal activities is to undertake the issuance of bonds and notes in foreign currency.
- CGS is an Islamic fund raising vehicle. Its main principal activities is to undertake the issuance of Sukuk in foreign currency.

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.

The ultimate holding company is Cagamas Holdings Berhad, a company incorporated in Malaysia.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the Companies Act, 2016 in Malaysia.

The financial statements of the Group and the Company have been prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies.

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

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

CAGAMAS BERHAD

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)**

The preparation of financial statements in conformity with MFRS 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's and the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

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

- (a) Standards, amendments to published standards and interpretations that are effective:

The new accounting standards, amendments and improvements to published standards and interpretation that are effective for the Group's and the Company's financial year beginning on 1 January 2016 are as follows:

- Amendments to MFRS 11 'Joint arrangements' - Accounting for acquisition of interests in joint operations
- Amendments to MFRS 101 'Presentation of financial statements' - Disclosure initiative
- Amendments to MFRS 127 "Equity method in separate financial statements"
- Amendments to MFRS 10, 12 & 128 "Investment entities – Applying the consolidation exception"
- Annual Improvements to MFRSs 2012 – 2014 Cycle

The adoption of these amendments did not have any impact on the current or any prior year and are not likely to affect future periods.

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2016. None of these is expected to have a significant effect on the consolidated financial statements of the Group and Company, except the following set out below:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The Company has initiated the assessment of the potential impact of this standard. Due to complexity of this standard and its proposed changes, the financial impact of the adoption is still under assessment.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers
- Identify the separate performance obligations
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum
- Amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

The Company has initiated the assessment of the potential impact of this standard. Due to complexity of this standard and its proposed changes, the financial impact of the adoption is still under assessment.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The adoption of new accounting standards will not have a significant impact on the financial results of the Group and the Company except for MFRS 9. The Group and the Company has initiated the assessment of the potential impact of this standard. Due to complexity of this standard and its proposed changes, the financial impact of the adoption is still under assessment.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Economic entities in the Group

Subsidiaries

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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.

CAGAMAS BERHAD

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.3 Amount due from counterparties and Islamic financing assets**

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

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

2.4 Mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets

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

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

2.5 AFS investment securities

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

Purchases of investments are recognised on the date the Group and the Company contract to purchase the investment. Investments are derecognised when the Group and the Company have contracted to sell the investment and 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 AFS investment securities is derived from market indicative quotes or observable market prices at the reporting date.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 AFS investment securities (continued)

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 or 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 2.8 (a) to the financial statements.

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

2.6 Investment in subsidiaries

Investment in subsidiaries is shown at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. Note 2.8 to the financial statements describes the Group's and the Company's accounting policy on impairment of assets and Note 3 details out the critical accounting estimates and assumptions.

2.7 Property and equipment and depreciation

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

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

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

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

At each statement of financial position date, the Group and the Company assess whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy on impairment of non-financial assets in Note 2.8 (b) to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property and equipment and depreciation (continued)

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

2.8 Impairment of assets

(a) Financial assets

(i) Assets carried at amortised cost

The Group and the Company assess at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets 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 financial asset or group of financial assets 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 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.

Where a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the income statement.

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of assets (continued)

(a) Financial assets (continued)

(ii) Assets classified as AFS

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

(b) Non-financial assets

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

2.9 Income recognition on mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets

Interest income for conventional assets and profit income on Islamic assets are recognised using the effective interest/profit rate method. Accretion of discount is recognised using the effective yield method.

2.10 Premium and discount on unsecured bearer bonds, notes and Sukuk

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

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Current and deferred tax

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

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

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

Deferred tax is 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 tax asset is realised or deferred tax liability is settled.

2.12 Cash and cash equivalents

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

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

2.14 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 and the Company. The Group and the Company have determined the Chief Executive Officer of the Company to be the chief operating decision maker.

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Derivative financial instruments and hedge accounting

Derivatives financial instruments consist of interest rate swaps ("IRS"), Islamic profit rate swaps ("IPRS"), cross currency swap ("CCS") and Islamic cross currency swap ("ICCS"). Derivatives financial instruments are used by the Group and the Company to hedge the issuance of its Bond/Sukuk from potential movements in interest rate, profit rate or foreign currency exchange rate. Further details of the derivatives financial instruments are disclosed in Note 6 to the financial statements.

Fair value of derivatives financial instruments 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, profit rates or foreign currency exchange rate are recorded as derivative assets (favourable) or derivative liabilities (unfavourable).

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

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

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

Cash flow hedge

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

When a hedging instrument expires or is sold, or when 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.

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Provisions

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

2.17 Zakat

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

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

Zakat rates enacted or substantively enacted by the statement of financial position date are used to determine the zakat expense. The rate of zakat on business, as determined by National Fatwa Council for the financial year is 2.5% (2015: 2.5%) of the zakat base. The zakat base of the Company is determined based on the profit before taxation 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 financial year in which it is incurred.

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Employee benefits

(a) Short-term employee benefits

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

(b) Defined contributions plans

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

2.19 Intangible assets

(a) Computer software

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

Costs associated with developing or maintaining computer software programmes are recognised when the costs are incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and the Company, 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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Intangible assets (continued)

- (b) Service rights to transaction administrator and administrator fees (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 2.8 (b) to the financial statements.

2.20 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 the shareholder 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 date. Upon the dividend becoming payable, it will be accounted for as a liability.

2.21 Currency translations

- (a) 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 the Company's functional and presentation currency.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Currency translations (continued)

(b) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

2.22 Financial instruments

(a) Description

A financial instrument is any contract that gives rise to both a financial asset of one 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.

(b) Fair value estimation for disclosure purposes

Please refer to Note 40 for the detailed methods and assumptions needed to estimate the fair value for each type of financial instruments.

In assessing fair value of other financial instruments, the Group and the Company use a variety of methods and make 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 and the Company for similar financial instruments.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.23 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.

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. 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.

2.24 Deferred financing fees

Deferred financing fees consist of expenses incurred in relation to the unsecured bond and notes/Sukuk issuance. Upon unsecured bond and notes/Sukuk issuance, deferred financing fees will be deducted from the carrying amount of the unsecured bond and notes/Sukuk and amortised using the effective interest/profit rate method.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

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

(a) Fair value of derivatives and AFS investment securities

The estimates and assumptions considered most likely to have an impact on the Group's and the Company'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 and the Company have exercised its judgement to select the appropriate valuation techniques for these instruments. However, changes in the assumptions made and market factors used could affect the reported fair values.

(b) Impairment of mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets

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

(c) Accretion of discount on mortgage assets and hire purchase assets

Assumptions are used to estimate cash flow projections of the principal balance outstanding of the mortgage assets and hire purchase assets acquired by the Group and the Company for the purposes of determining accretion of discount. The estimate is determined based on the historical repayment and redemption trend of the borrowers of the mortgage assets and hire purchase assets. Changes in these assumptions could impact the amount recognised as accretion of discount.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES

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

In recent years, the Group and the Company have 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 and the Company 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 and the Company's aim to create strong risk awareness amongst both its front-line and back office staff, where risks are systematically managed and the levels of risk taking are closely aligned to the risk appetite and risk-reward requirements set by the Board of Directors.

4.1 Risk management structure

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

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

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

4.2 Credit risk management

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

4.2 Credit risk management (continued)

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

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

4.3 Market risk management

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

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

The Group and the Company also use derivative instruments such as interest rate swaps, profit rate swaps, CCS and ICCS to manage and hedge its market risk exposure against fluctuations in interest rates, profit rates and foreign currency exchange rate.

4.4 Liquidity risk management

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

4.4 Liquidity risk management (continued)

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

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

5 CASH AND SHORT-TERM FUNDS

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Cash and balance with banks and other financial institutions	45,531	46,908	41,611	46,785
Money at call and deposits and placements maturing within one month	230,877	117,417	230,877	117,417
Mudharabah money at call and deposits and placements maturing within one month	132,988	79,587	132,988	79,587
	<u>409,396</u>	<u>243,912</u>	<u>405,476</u>	<u>243,789</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**6 DERIVATIVE FINANCIAL INSTRUMENTS**

The derivative financial instruments used by the Group and the Company to hedge against its interest/profit rate exposure and foreign currency exposure are IRS, IPRS and CCS and ICCS.

IRS/IPRS are used by the Group and the Company to hedge against its interest/profit rate exposure arising from the following transactions:

(i) *Issuance of fixed rate bonds/Sukuk to fund floating rate asset purchases*

The Group and the Company pay the floating rate receipts from its floating rate asset purchases to the swap counterparties and receive fixed rate interest/profit in return. This fixed rate interest/profit will then be utilised to pay coupon on the fixed rate bonds/ Sukuk issued. Hence, the Group and Company are protected from adverse movements in interest rate.

(ii) *Issuance of short duration bonds/Sukuk to fund long-term fixed asset*

The Group and the Company will issue short duration bonds/Sukuk and enter into swap transaction to receive floating rate interest from and pay fixed rate interest to the swap counterparty. Upon receiving instalment from assets, the Group and the Company pay fixed rate interest to the swap counterparty and receive floating rate interest to pay to the bondholders/Sukukholders.

CCS and ICCS is also used by the Group and the Company to hedge against foreign currency exposure arising from the issuance of foreign currency bonds/Sukuk to fund assets in functional currency. Illustration of the transaction as follows:

- (i) At inception, the Group and the Company will swap the proceeds from the foreign currency bonds/Sukuk to the functional currency at the pre-agreed exchange rate with CCS/ICCS counterparty.
- (ii) In the interim, the Group and the Company will receive interest payment in foreign currency from the CCS/ICCS counterparty and remit the same to the foreign currency bonds/Sukuk holders for coupon payment. Simultaneously, the Group and the Company pay interest to the CCS/ICCS counterparty in functional currency using instalment received from assets purchased.
- (iii) On maturity, the Group and the Company will pay principal in functional currency at the same pre-agreed exchange rate to the CCS/ICCS counterparty and receive amount of principal in foreign currency equal to the principal of the foreign currency bonds/Sukuk which will then be used to redeem the bonds/Sukuk. The Group's and the Company's foreign currency exposures are from Renminbi ("CNH"), Hong Kong Dollar ("HKD"), US Dollar ("USD") and Singapore Dollar ("SGD").

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

(a) Cash flow hedges

The Group and the Company have designated a number of derivative financial instruments as cash flow hedges during the financial year. The total fair value of derivatives included within cash flow hedges at 31 December 2016 was a credit of RM853.5 million (2015: RM640.1 million).

(b) Fair value hedges

The Group and the Company do not designate any derivatives as fair value hedges.

(c) Net investment hedges

The Group and the Company do not designate any derivatives as net investment hedges.

The table below summarises the derivatives financial instruments entered by the Group and the Company.

	Group and Company					
	2016			2015		
	Contract/ Notional amount RM'000	Assets RM'000	Liabilities RM'000	Contract/ Notional amount RM'000	Assets RM'000	Liabilities RM'000
Derivatives designated as cashflow hedges:						
IRS						
One to three years	1,525,000	4,808	(13,154)	1,175,000	2,192	(15,879)
More than five years	570,000	5,340	(20,434)	570,000	-	(17,979)
	<u>2,095,000</u>	<u>10,148</u>	<u>(33,588)</u>	<u>1,745,000</u>	<u>2,192</u>	<u>(33,858)</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	2016			Group and Company 2015		
	Contract/ Notional amount RM'000	Assets RM'000	Liabilities RM'000	Contract/ Notional amount RM'000	Assets RM'000	Liabilities RM'000
Derivatives designated as cashflow hedges (continued) :						
CCS/ICCS						
Maturing within one year	2,452,543	95,405	(237)	500,294	799	-
One to three years	2,800,000	781,808	-	2,162,000	222,521	(1,382)
Three to five years	-	-	-	1,725,000	449,864	-
	<u>5,252,543</u>	<u>877,213</u>	<u>(237)</u>	<u>4,387,294</u>	<u>673,184</u>	<u>(1,382)</u>
Derivatives not designated as cashflow hedges:						
IPRS						
Maturing within one year	500,000	465	-	-	-	-
One to three years	-	-	-	500,000	3,471	-
	<u>500,000</u>	<u>465</u>		<u>500,000</u>	<u>3,471</u>	<u>-</u>
	<u>7,847,543</u>	<u>887,826</u>	<u>(33,825)</u>	<u>6,632,294</u>	<u>678,847</u>	<u>(35,240)</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**7 AFS INVESTMENT SECURITIES**

	<u>Group and Company</u>	
	2016	2015
	RM'000	RM'000
<i>At fair value</i>		
Malaysian government securities	10,060	182,797
Corporate bonds	428,062	352,572
Government investment issues	442,200	392,247
Sukuk	348,602	398,916
Quasi government bonds	-	65,574
Quasi government Sukuk	340,328	401,511
Unit trust	81,266	-
	<u>1,650,518</u>	<u>1,793,617</u>

The maturity structure of AFS investment securities are as follows:

Maturing within one year	284,709	328,719
One to three years	285,505	354,339
Three to five years	154,459	229,666
More than five years	925,845	880,893
	<u>1,650,518</u>	<u>1,793,617</u>

8 AMOUNT DUE FROM COUNTERPARTIES

	<u>Group and Company</u>	
	2016	2015
	RM'000	RM'000
Relating to:		
Mortgage loans	13,872,352	9,821,901
Hire purchase and leasing debts	258,746	297,815
Personal loans	165,067	851,263
	<u>14,296,165</u>	<u>10,970,979</u>

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

Maturing within one year	5,154,450	1,051,156
One to three years	8,135,868	7,183,539
Three to five years	50,824	1,781,284
More than 5 years	955,023	955,000
	<u>14,296,165</u>	<u>10,970,979</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 ISLAMIC FINANCING ASSETS

	<u>Group and Company</u>	
	2016	2015
	RM'000	RM'000
Relating to:		
Islamic house financing	4,225,536	3,439,157
Islamic hire purchase financing	382,819	1,078,722
Islamic personal financing	699,334	1,063,570
	<u>5,307,689</u>	<u>5,581,449</u>

The maturity structure Islamic financing assets are as follows:

Maturing within one year	3,001,966	1,237,569
One to three years	1,387,816	3,385,075
Three to five years	500,003	524,092
More than five years	417,904	434,713
	<u>5,307,689</u>	<u>5,581,449</u>

10 MORTGAGE ASSETS – CONVENTIONAL

	<u>Group and Company</u>	
	2016	2015
	RM'000	RM'000
Purchase without recourse ("PWOR")	<u>6,238,337</u>	<u>6,781,767</u>

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

Maturing within one year	935,176	1,012,079
One to three years	1,218,288	1,262,218
Three to five years	1,148,044	1,202,930
More than five years	3,910,131	4,409,314
	<u>7,211,639</u>	<u>7,886,541</u>
Less:		
Unaccreted discount	(934,931)	(1,064,387)
Allowance for impairment losses	(38,371)	(40,387)
	<u>6,238,337</u>	<u>6,781,767</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 MORTGAGE ASSETS – ISLAMIC

	<u>Group and Company</u>	
	2016 RM'000	2015 RM'000
PWOR	<u>6,662,093</u>	<u>7,006,642</u>
The maturity structure of mortgage assets - Islamic are as follows:		
Maturing within one year	726,071	711,515
One to three years	958,087	901,258
Three to five years	980,438	918,230
More than five years	<u>4,924,612</u>	<u>5,521,613</u>
	7,589,208	8,052,616
Less:		
Unaccreted discount	(896,969)	(1,009,807)
Allowance for impairment losses	<u>(30,146)</u>	<u>(36,167)</u>
	<u>6,662,093</u>	<u>7,006,642</u>

12 HIRE PURCHASE ASSETS - ISLAMIC

	<u>Group and Company</u>	
	2016 RM'000	2015 RM'000
PWOR	<u>1,924</u>	<u>4,105</u>
The maturity structure of hire purchase assets - Islamic are as follows:		
Maturing within one year	2,001	2,872
One to three years	<u>153</u>	<u>1,397</u>
	2,154	4,269
Less:		
Unaccreted discount	(15)	(93)
Allowance for impairment losses	<u>(215)</u>	<u>(71)</u>
	<u>1,924</u>	<u>4,105</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**13 AMOUNT DUE FROM SUBSIDIARIES**

The amount due from subsidiaries is non-trade in nature, denominated in Ringgit Malaysia, unsecured, non-interest bearing and has no fixed term of repayment.

14 OTHER ASSETS

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Staff loans and financing	4,487	4,419	4,487	4,419
Deposits	927	918	876	875
Prepayments	1,276	1,412	1,276	1,412
Other receivables	1,001	269	1,001	269
Compensation receivable from originator on mortgage assets	1,462	2,145	1,462	2,145
	<u>9,153</u>	<u>9,163</u>	<u>9,102</u>	<u>9,120</u>

15 PROPERTY AND EQUIPMENT

	<u>Office equipment</u>	<u>Furniture and fittings</u>	<u>Motor vehicles</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
<u>Group and Company</u>				
Cost				
As at 1 January 2016	4,834	4,667	627	10,128
Additions	1,048	13	-	1,061
Disposals	(269)	(27)	-	(296)
As at 31 December 2016	<u>5,613</u>	<u>4,653</u>	<u>627</u>	<u>10,893</u>
Accumulated depreciation				
As at 1 January 2016	(3,614)	(3,112)	(434)	(7,160)
Charge for the financial year	(547)	(460)	(125)	(1,132)
Disposals	268	23	-	291
As at 31 December 2016	<u>(3,893)</u>	<u>(3,549)</u>	<u>(559)</u>	<u>(8,001)</u>
Net book value as at 31 December 2016	<u>1,720</u>	<u>1,104</u>	<u>68</u>	<u>2,892</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 PROPERTY AND EQUIPMENT (CONTINUED)

	Office equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
<u>Group and Company</u>				
Cost				
As at 1 January 2015	4,170	4,591	627	9,388
Additions	766	76	-	842
Disposals	(102)	-	-	(102)
As at 31 December 2015	<u>4,834</u>	<u>4,667</u>	<u>627</u>	<u>10,128</u>
Accumulated depreciation				
As at 1 January 2015	(3,210)	(2,652)	(310)	(6,172)
Charge for the financial year	(506)	(460)	(124)	(1,090)
Disposals	102	-	-	102
As at 31 December 2015	<u>(3,614)</u>	<u>(3,112)</u>	<u>(434)</u>	<u>(7,160)</u>
Net book value as at 31 December 2015	<u>1,220</u>	<u>1,555</u>	<u>193</u>	<u>2,968</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 INTANGIBLE ASSETS

	Service rights RM'000	Computer software RM'000	Computer software licenses RM'000	Work in progress RM'000	Total RM'000
<u>Group and Company</u>					
<u>Cost</u>					
As at 1 January 2016	16,712	12,047	4,832	-	33,591
Additions	-	-	691	7,020	7,711
As at 31 December 2016	16,712	12,047	5,523	7,020	41,302
<u>Accumulated amortisation</u>					
As at 1 January 2016	(11,682)	(11,943)	(2,238)	-	(25,863)
Charge for the financial year	(564)	(74)	(769)	-	(1,407)
As at 31 December 2016	(12,246)	(12,017)	(3,007)	-	(27,270)
<u>Net book value</u>					
31 December 2016	4,466	30	2,516	7,020	14,032
<u>Cost</u>					
As at 1 January 2015	16,712	12,047	3,798	-	32,557
Additions	-	-	1,034	-	1,034
As at 31 December 2015	16,712	12,047	4,832	-	33,591
<u>Accumulated amortisation</u>					
As at 1 January 2015	(11,118)	(11,637)	(1,602)	-	(24,357)
Charge for the financial year	(564)	(306)	(636)	-	(1,506)
As at 31 December 2015	(11,682)	(11,943)	(2,238)	-	(25,863)
<u>Net book value</u>					
31 December 2015	5,030	104	2,594	-	7,728

Service rights are amortised on a straight line basis over the tenure of RMBS/IRMBS. The remaining amortisation period of the intangible assets ranges from 4 to 11 years (2015: 5 to 12 years).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**17 DEFERRED TAXATION**

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

	<u>Group and Company</u>	
	2016	2015
	RM'000	RM'000
Deferred tax assets (before offsetting)	(10,481)	(12,811)
Deferred tax liabilities (before offsetting)	2,116	12,840
Deferred tax (assets)/liabilities	<u>(8,365)</u>	<u>29</u>

The movements of deferred tax are as follows:

As at 1 January	29	(6,236)
Credit to income statement (Note 31)	(767)	(865)
Credit to other comprehensive income	(7,627)	7,130
As at 31 December	<u>(8,365)</u>	<u>29</u>

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

	<u>Group and Company</u>			
	As at 1 January RM'000	Recognised to income statement RM'000	Recognised to reserves RM'000	As at 31 December RM'000
2016				
Deferred tax assets				
Net unrealised losses on revaluation of derivatives financial instruments under cash flow hedge accounting	(7,049)	-	1,138	(5,911)
Provisions	(1,026)	(219)	-	(1,245)
Revaluation reserves of AFS investment securities	(4,736)	-	1,411	(3,325)
	<u>(12,811)</u>	<u>(219)</u>	<u>2,549</u>	<u>(10,481)</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 DEFERRED TAXATION (CONTINUED)

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

	Group and Company			
	As at 1 January RM'000	Recognised to income statement RM'000	Recognised to reserves RM'000	As at 31 December RM'000
2016				
Deferred tax liabilities				
Net unrealised gain on revaluation of derivatives financial instruments under cash flow hedge accounting	11,776	-	(10,060)	1,716
Revaluation reserves of AFS investment securities	116	-	(116)	-
Accelerated tax depreciation	892	(587)	-	305
Temporary difference relating to interest/profit receivables on deposits and placements	56	39	-	95
	<u>12,840</u>	<u>(548)</u>	<u>(10,176)</u>	<u>2,116</u>
2015				
Deferred tax assets				
Net unrealised losses on revaluation of derivatives financial instruments under cash flow hedge accounting	(2,897)	-	(4,152)	(7,049)
Provisions	(545)	(481)	-	(1,026)
Revaluation reserves of AFS investment securities	(4,126)	-	(610)	(4,736)
	<u>(7,568)</u>	<u>(481)</u>	<u>(4,762)</u>	<u>(12,811)</u>

CAGAMAS BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**17 DEFERRED TAXATION (CONTINUED)**

	<u>Group and Company</u>			
	<u>As at 1 January</u> RM'000	<u>Recognised to income statement</u> RM'000	<u>Recognised to reserves</u> RM'000	<u>As at 31 December</u> RM'000
2015				
Deferred tax liabilities				
Net unrealised losses on revaluation of derivatives financial instruments under cash flow hedge accounting	-	-	11,776	11,776
Revaluation reserves of AFS investment securities	-	-	116	116
Accelerated tax depreciation	1,316	(424)	-	892
Temporary difference relating to interest/profit receivables on deposits and placements	16	40	-	56
	<u>1,332</u>	<u>(384)</u>	<u>11,892</u>	<u>12,840</u>

18 INVESTMENT IN SUBSIDIARIES

	<u>Company</u>	
	<u>2016</u> RM'000	<u>2015</u> RM'000
Unquoted shares at cost	-*	-*

*denotes USD1 in CGP and RM2 in CGS.

		<u>Interest in equity held by the Company</u>	
		<u>2016</u> %	<u>2015</u> %
The subsidiaries of the Company are as follows:			
<u>Name</u>	<u>Principal activities</u>		
Cagamas Global P.L.C.*	To undertake the issuance of bonds and notes in foreign currency.	100	100
Cagamas Global Sukuk Berhad	To undertake the issuance of Sukuk in foreign currency.	100	100

* Subsidiaries are incorporated in Malaysia except for CGP which is incorporated in Labuan

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 UNSECURED BEARER BONDS AND NOTES

				Group	
		2016		2015	
	Year of	Amount	Effective	Amount	Effective
	maturity	outstanding	interest rate	outstanding	interest rate
		RM'000	%	RM'000	%
(a) Floating rate notes	2016	-	-	180,000	3.500
	2017	300,000	3.820	-	-
Add:					
Interest payable		1,052		2,855	
		<u>301,052</u>		<u>182,855</u>	
(b) Commercial paper	2016	-		300,000	3.760
Add:					
Interest payable		-		1,143	
		<u>-</u>		<u>301,143</u>	
(c) Medium-term notes	2016	-	-	1,735,000	3.470 - 4.930
	2017	5,795,017	1.600 - 4.640	3,864,123	2.370 - 4.640
	2018	4,887,493	1.880 - 5.710	4,287,241	1.880 - 5.710
	2019	5,288,107	2.745 - 5.280	2,991,750	2.745 - 5.280
	2020	540,000	4.100 - 6.000	540,000	4.100 - 6.000
	2021	315,000	4.150 - 5.380	315,000	4.150 - 5.380
	2022	485,000	3.900 - 4.480	485,000	3.900 - 4.480
	2023	525,000	4.250 - 6.050	525,000	4.250 - 6.050
	2024	430,000	4.000 - 5.520	430,000	4.000 - 5.520
	2025	640,000	4.550 - 4.650	640,000	4.550 - 4.650
	2026	10,000	4.410	10,000	4.410
	2027	275,000	4.140 - 4.170	275,000	4.140 - 4.170
	2028	890,000	4.750 - 6.500	890,000	4.750 - 6.500
	2029	245,000	5.500 - 5.750	245,000	5.500 - 5.750
	2035	160,000	5.750	160,000	5.750
		<u>20,485,617</u>		<u>17,393,114</u>	
Add:					
Interest payable		166,929		128,882	
Unaccreted premium		29		-	
Less:					
Deferred financing fees		(4,372)		(7,255)	
Unamortised discount		(2,669)		(4,015)	
		<u>20,645,534</u>		<u>17,510,726</u>	
		<u>20,946,586</u>		<u>17,994,724</u>	

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 UNSECURED BEARER BONDS AND NOTES (CONTINUED)

				Company
		2016		2015
	<u>Year of</u>	<u>Amount</u>	<u>Effective</u>	<u>Amount</u>
	<u>maturity</u>	<u>outstanding</u>	<u>interest rate</u>	<u>outstanding</u>
		RM'000	%	RM'000
				<u>Effective</u>
				<u>interest rate</u>
				%
(a) Floating rate notes	2016	-	-	180,000
	2017	300,000	3.8200	-
Add:				
Interest payable		1,052		2,855
		<u>301,052</u>		<u>182,855</u>
(b) Commercial paper	2016	-		300,000
Add:				
Interest payable		-		1,143
		<u>-</u>		<u>301,143</u>
(c) Medium-term notes	2016	-	-	1,735,000
	2017	3,530,000	3.300 - 4.640	2,580,000
	2018	3,550,000	3.420 - 5.710	3,000,000
	2019	3,045,000	3.650 - 5.280	845,000
	2020	540,000	4.100 - 6.000	540,000
	2021	315,000	4.150 - 5.380	315,000
	2022	485,000	3.900 - 4.480	485,000
	2023	525,000	4.250 - 6.050	525,000
	2024	430,000	4.000 - 5.520	430,000
	2025	640,000	4.550 - 4.650	640,000
	2026	10,000	4.140	10,000
	2027	275,000	4.140 - 4.170	275,000
	2028	890,000	4.750 - 6.500	890,000
	2029	245,000	5.500 - 5.750	245,000
	2035	160,000	5.070	160,000
		<u>14,640,000</u>		<u>12,675,000</u>
Add:				
Interest payable		142,015		109,925
Unaccreted premium		29		-
Less:				
Unamortised discount		(2,669)		(4,015)
		<u>14,779,375</u>		<u>12,780,910</u>
		<u>15,080,427</u>		<u>13,264,908</u>

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 UNSECURED BEARER BONDS AND NOTES (CONTINUED)

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

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	6,260,024	2,340,625	3,973,096	2,328,923
One to three years	10,171,562	8,147,349	6,592,331	5,575,985
Three to five years	855,000	3,531,750	855,000	1,385,000
More than five years	3,660,000	3,975,000	3,660,000	3,975,000
	<u>20,946,586</u>	<u>17,994,724</u>	<u>15,080,427</u>	<u>13,264,908</u>

(a) Floating rate notes

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

(b) Commercial paper

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

(c) Medium-term notes

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

Included in medium-term notes are medium-term notes issued in foreign currency ("EMTN"). The EMTN are issued by CGP, and are unconditionally and irrevocably guaranteed by the Company. The unsecured bearer bonds and notes outstanding at the ended financial year which are not in the functional currencies of the Group are as follows:

	<u>Group</u>	
	2016	2015
	RM'000	RM'000
CNH	974,256	986,794
HKD	580,170	555,600
USD	3,279,146	2,576,862
SGD	1,032,586	610,561
	<u>5,866,158</u>	<u>4,729,817</u>

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 SUKUK

				Group	
		2016		2015	
<u>Year of maturity</u>	<u>Amount outstanding</u>	<u>Effective profit rate</u>	<u>Amount outstanding</u>	<u>Effective profit rate</u>	
	RM'000	%	RM'000	%	
(a) Islamic commercial papers	2017	500,000	3.6200	-	-
Add:					
Profit payable	248		-		
	<u>500,248</u>		<u>-</u>		
(b) Islamic fixed medium-term notes	2016	-	-	2,494,625	3.400 - 4.930
	2017	2,625,512	2.300 - 4.050	1,930,000	3.500 - 4.050
	2018	1,145,000	3.600 - 5.800	1,145,000	3.600 - 5.800
	2019	1,187,000	3.750 - 5.280	412,000	3.750 - 5.280
	2020	1,180,000	4.150 - 6.000	1,180,000	4.150 - 6.000
	2021	245,000	4.150 - 5.380	245,000	4.150 - 5.380
	2022	460,000	3.900 - 4.480	460,000	3.900 - 4.480
	2023	995,000	4.250 - 6.350	995,000	4.250 - 6.350
	2024	315,000	4.000 - 5.520	315,000	4.000 - 5.520
	2025	455,000	4.550 - 4.650	455,000	4.550 - 4.650
	2026	20,000	4.410 - 4.920	20,000	4.410 - 4.920
	2027	15,000	4.140	15,000	4.140
	2028	1,080,000	4.750 - 6.500	1,080,000	4.750 - 6.500
	2029	180,000	5.500 - 5.750	180,000	5.500 - 5.750
	2033	675,000	5.000	675,000	5.000
	<u>10,577,512</u>			<u>11,601,625</u>	
Add:					
Profit payable	116,678			113,041	
Unaccreted premium	21,857			-	
Less:					
Deferred financing fees	(75)			(2,348)	
Unamortised discount	(1,307)			(1,933)	
	<u>10,714,665</u>			<u>11,710,385</u>	

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 SUKUK (CONTINUED)

				Group	
		2016		2015	
<u>Year of</u>	<u>Amount</u>	<u>Effective</u>	<u>Amount</u>	<u>Effective</u>	
<u>maturity</u>	<u>outstanding</u>	<u>profit rate</u>	<u>outstanding</u>	<u>profit rate</u>	
	RM'000	%	RM'000	%	
(c) Islamic variable medium-term notes					
2016	-	-	230,000	3.500	
Add:					
Profit payable	-		3,648		
	-		233,648		
	<u>11,214,913</u>		<u>11,944,033</u>		

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 SUKUK (CONTINUED)

			Company		
			2016		2015
	<u>Year of maturity</u>	<u>Amount outstanding</u> RM'000	<u>Effective profit rate</u> %	<u>Amount outstanding</u> RM'000	<u>Effective profit rate</u> %
(a) Islamic commercial papers	2017	500,000	3.6200	-	-
Add:					
Profit payable		248		-	
		<u>500,248</u>		<u>-</u>	
(b) Islamic fixed medium-term notes	2016	-		2,000,000	3.400 – 4.930
	2017	2,160,000	3.300 – 4.050	1,930,000	3.500 – 4.050
	2018	1,145,000	3.600 – 5.800	1,145,000	3.600 – 5.800
	2019	1,187,000	3.750 – 5.280	412,000	3.750 – 5.280
	2020	1,180,000	4.150 – 6.000	1,180,000	4.150 – 6.000
	2021	245,000	4.150 – 5.380	245,000	4.150 – 5.380
	2022	460,000	3.900 – 4.480	460,000	3.900 – 4.480
	2023	995,000	4.250 – 6.350	995,000	4.250 – 6.350
	2024	315,000	4.000 – 5.520	315,000	4.000 – 5.520
	2025	455,000	4.550 – 4.650	455,000	4.550 – 4.650
	2026	20,000	4.410 – 4.920	20,000	4.410 – 4.920
	2027	15,000	4.140	15,000	4.140
	2028	1,080,000	4.750 – 6.500	1,080,000	4.750 – 6.500
	2029	180,000	5.500 – 5.750	180,000	5.500 – 5.750
	2033	675,000	5.000	675,000	5.000
		<u>10,112,000</u>		<u>11,107,000</u>	
Add:					
Profit payable		113,362		110,235	
Unaccreted premium		21,857		-	
Less:					
Unamortised discount		(1,307)		(1,933)	
		<u>10,245,912</u>		<u>11,215,302</u>	

CAGAMAS BERHAD

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 SUKUK (CONTINUED)

				Company	
		2016		2015	
<u>Year of maturity</u>	<u>Amount outstanding</u>	<u>Effective profit rate</u>	<u>Amount outstanding</u>	<u>Effective profit rate</u>	
	RM'000	%	RM'000	%	
(c) Islamic variable medium-term notes					
2016	-	-	230,000	3.500	
Add:					
Profit payable	-		3,648		
	-		233,648		
	<u>10,746,160</u>		<u>11,448,950</u>		

The maturity structure of Sukuk are as follows:

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	3,242,363	2,838,966	2,773,610	2,343,883
One to three years	2,352,550	3,073,067	2,352,550	3,073,067
Three to five years	1,425,000	1,592,000	1,425,000	1,592,000
More than five years	4,195,000	4,440,000	4,195,000	4,440,000
	<u>11,214,913</u>	<u>11,944,033</u>	<u>10,746,160</u>	<u>11,448,950</u>

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 SUKUK (CONTINUED)

(a) Islamic commercial paper

Islamic commercial paper are short term instruments with maturities ranging from 1 to 12 months and were issued at a discount or at par (profit-bearing).

(b) Islamic medium-term notes

Islamic medium-term notes are issued by the Group based on various Islamic principles including Sukuk ALIm and fixed rate Sukuk Murabahah. These Sukuk have tenures of more than 1 year and are issued at a discount or at par (coupon-bearing). Profit on these Sukuk is paid on a half-yearly/quarterly basis depending on issuance.

(c) Islamic variable medium-term notes

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

Included in Islamic medium-term notes are Islamic medium-term notes issued in foreign currency ("Islamic EMTN"). The Islamic EMTN are issued by CGS, and are unconditionally and irrevocably guaranteed by the Company. The Sukuk outstanding at the end of financial year which are not in the functional currencies of the Group are as follows:

	2016	Group 2015
	RM'000	RM'000
SGD	468,751	495,083

CAGAMAS BERHAD

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**21 LOANS/FINANCING FROM SUBSIDIARY**

Loans from subsidiary outstanding at financial year ended that are not in the functional currencies of the Group are as follows:

	<u>Company</u>	
	2016	2015
	RM'000	RM'000
CNH	975,934	990,575
HKD	580,170	555,600
USD	3,282,148	2,580,140
SGD	1,502,290	1,109,125
	<u>6,340,542</u>	<u>5,235,440</u>

Loans/financing from subsidiary are unsecured and subject to interest/profit rates ranging from 1.710% to 3.860% per annum (2015 : 1.880% to 3.860% per annum).

The maturity structure of loans/financing from subsidiary are as follows:

	<u>Company</u>	
	2016	2015
	RM'000	RM'000
Maturing within one year	2,759,942	517,326
One to three years	3,580,600	2,571,364
Three to five years	-	2,146,750
	<u>6,340,542</u>	<u>5,235,440</u>

22 OTHER LIABILITIES

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Provision for zakat	1,011	2,777	1,011	2,777
Amount due to Government	41,209	46,239	41,209	46,239
Other payables and accruals	19,576	20,024	18,584	18,759
	<u>61,796</u>	<u>69,040</u>	<u>60,804</u>	<u>67,775</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 SHARE CAPITAL

	Group and Company			
	2016		2015	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Ordinary shares of RM1 each:				
Authorised:				
As at 1 January/ 31 December	500,000	500,000	500,000	500,000
Issued and fully paid:				
As at 1 January/ 31 December	150,000	150,000	150,000	150,000

24 RESERVES

(a) AFS reserves

This amount represents the unrealised fair value gains or losses on AFS investment securities, net of taxation.

(b) Cash flow hedge reserves

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

(c) Regulatory reserves

The Group and the Company have adopted the BNM Guidelines on Classification and Impairment Provisions for Loans/Financing – Maintenance of Regulatory Reserves which was effective from 31 December 2015 on voluntary basis. The policy document requires banking institution to maintain, in aggregate, collective impairment provisions and regulatory reserves of no less than 1.2% of the total outstanding loans/financing, net of individual impairment provisions.

25 NET TANGIBLE ASSETS AND EARNINGS PER SHARE

The net tangible assets per share is calculated by dividing the net tangible assets of RM3,202,006,000 of the Group and RM3,198,368,000 of the Company respectively (2015: RM3,007,468,000 of the Group and RM3,005,390,000 of the Company respectively) by 150,000,000 ordinary shares of the Group and the Company in issue.

Basic and diluted earnings per share is calculated by dividing the profit for the financial year of RM255,036,000 of the Group and RM253,476,000 of the Company respectively (2015: RM255,548,000 of the Group and RM253,551,000 of the Company respectively) by 150,000,000 ordinary 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.

CAGAMAS BERHAD

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**26 INTEREST INCOME**

	<u>Group and Company</u>	
	2016 RM'000	2015 RM'000
Amount due from counterparties	563,317	332,109
Mortgage assets	283,236	324,661
Compensation from mortgage assets	73	101
Hire purchase assets	-	205
AFS investment securities	62,416	58,254
Deposits and placements with financial institutions	7,358	6,020
	<u>916,400</u>	<u>721,350</u>
Accretion of discount less amortisation of premium (net)	135,133	162,379
	<u>1,051,533</u>	<u>883,729</u>

27 INTEREST EXPENSE

	<u>Group</u>		<u>Company</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Floating rate notes	13,640	7,321	13,640	7,321
Medium-term notes	766,361	586,682	628,780	478,362
Commercial paper	2,990	1,388	2,990	1,388
Deposit and placements of financial institutions	-	895	-	895
Loans/financing from subsidiaries	-	-	141,329	112,005
	<u>782,991</u>	<u>596,286</u>	<u>786,739</u>	<u>599,971</u>

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 NON-INTEREST EXPENSE

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Net derivatives expense	(43,463)	(33,761)	(43,463)	(33,761)
Gain on disposal of AFS investment securities	3,863	3,521	3,863	3,521
Loss on disposal of property and equipment	(10)	(1)	(10)	(1)
Reclassification adjustments of fair value gains on CCS, transfer from equity	247,650	571,227	247,650	571,227
Unrealised loss on foreign exchange	(246,478)	(573,403)	(246,475)	(573,365)
Other non-operating income	4,968	5,463	4,968	5,463
	<u>(33,470)</u>	<u>(26,954)</u>	<u>(33,467)</u>	<u>(26,916)</u>

29 PROFIT BEFORE TAXATION AND ZAKAT

The following items have been charged/(credited) in arriving at profit before taxation and zakat:

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Directors' remuneration (Note 30)	2,173	1,967	2,173	1,967
Rental of premises	2,648	2,601	2,648	2,601
Hire of equipment	435	392	435	392
Auditors' remuneration				
- Audit fees	205	211	177	183
- Non audit fees	18	16	8	9
Depreciation of property and equipment	1,132	1,090	1,132	1,090
Amortisation of intangible assets	1,407	1,506	1,407	1,506
Servicers fees	3,202	3,585	3,202	3,585
Repairs and maintenance	4,945	2,147	4,945	2,147
Donations and sponsorship	416	1,317	416	1,317
Corporate expenses	734	1,823	734	1,823
Travelling expenses	684	716	684	716
Loss on disposal of property and equipment	10	1	10	1
(Write-back)/allowance of impairment losses	(8,062)	8,122	(8,062)	8,122
Personnel costs:				
- Salary and allowances	12,380	11,847	12,380	11,847
- Bonus	6,674	6,068	6,674	6,068
- Overtime	63	61	63	61
- EPF and SOCSO	2,542	3,790	2,542	3,790
- Insurance	747	490	747	490
	<u></u>	<u></u>	<u></u>	<u></u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 DIRECTORS' REMUNERATION

The Directors who served since the date of the last report are:

Non-Executive Directors

Dato' Ooi Sang Kuang (Chairman)
Dato' Albert Yeoh Beow Tit (retired on 28.3.2016)
Tang Wing Chew (retired on 1.3.2017)
Dato' Halipah binti Esa
Dr. Roslan A. Ghaffar
Dato' Md Agil bin Mohd Natt
Philip Tan Puay Koon
Nik Mohd Hasyudeen Yusoff (appointed on 1.7.2016, resigned on 1.1.2017)
Dato' Wee Yiau Hin (appointed on 1.7.2016)
Datuk Chung Chee Leong
Shaik Abdul Rasheed bin Abdul Ghaffour (appointed on 1.1.2017)
Nazrul Hisyam Mohd Noh (appointed on 1.1.2017)

Executive Director

Datuk Chung Chee Leong

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

	<u>Group and Company</u>	
	2016	2015
	RM'000	RM'000
Fees	382	370
Salaries and other remuneration	1,791	1,597
	<u>2,173</u>	<u>1,967</u>

Emoluments received by the Executive Director during the financial years are included in other remuneration.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 TAXATION

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
(a) Tax charge for the financial year:				
Malaysian Income tax:				
- Current tax	76,755	85,950	76,735	85,930
- Deferred taxation (Note 17)	(767)	(865)	(767)	(865)
	<u>75,988</u>	<u>85,085</u>	<u>75,968</u>	<u>85,065</u>
Current tax:				
- Current year	78,001	85,811	77,981	85,791
- (Over)/under provision in prior year	(1,246)	139	(1,246)	139
	<u>76,755</u>	<u>85,950</u>	<u>76,735</u>	<u>85,930</u>
Deferred taxation:				
Origination and reversal of temporary differences (Note 17)	(767)	(865)	(767)	(865)
	<u>75,988</u>	<u>85,085</u>	<u>75,968</u>	<u>85,065</u>

(b) Reconciliation of income tax expense

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

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Profit before taxation and zakat	<u>332,035</u>	<u>343,410</u>	<u>330,455</u>	<u>341,393</u>
Tax calculated at Malaysian tax rate of 24% (2015: 25%)	79,689	85,853	79,309	85,348
Different tax rate in Labuan	(825)	(735)	-	-
Subsidiary's current year tax losses utilised	(465)	-	(465)	-
Loss not subject to tax	465	250	-	-
Expenses not deductible for tax purposes	427	407	427	407
Deduction arising from zakat contribution	(243)	(694)	(243)	(694)
Others	(1,814)	(135)	(1,814)	(135)
(Over)/under provision in prior year	(1,246)	139	(1,246)	139
	<u>75,988</u>	<u>85,085</u>	<u>75,968</u>	<u>85,065</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 DIVIDENDS

Dividends paid, proposed and approved are as follows:

	Group and Company			
	Per share Sen	2016 Total amount RM'000	Per share Sen	2015 Total amount RM'000
Interim dividend paid	5.00	7,500	5.00	7,500
Final dividend paid	15.00	22,500	6.00	9,000
	<u>20.00</u>	<u>30,000</u>	<u>11.00</u>	<u>16,500</u>

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2016 of 15 sen per share (2015: 15 sen per share) amounting to RM22,500,000 (2015: RM22,500,000) will be proposed for shareholder's approval.

33 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties and relationships

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

<u>Related parties</u>	<u>Relationships</u>
CHB	Ultimate holding company
CGP	Subsidiary
CGS	Subsidiary
Cagamas MBS Berhad ("CMBS")	Related company
BNM Sukuk Berhad ("BNM Sukuk")	Structured entity of ultimate holding company
Cagamas SME Berhad ("CSME")	Related company
Cagamas SRP Berhad ("CSRP")	Related company
Cagamas MGP Berhad ("CMGP")	Related company
Government of Malaysia ("GOM")	Servicer
Bank Negara Malaysia ("BNM")	Other related party
Key management personnel	Other related party
Entities in which key management personnel have control	Other related party

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related parties and relationships (continued)

BNM is regarded as a related party on the basis of having significant influence over the ultimate holding company.

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

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

(b) Significant related party transactions and balances

Most of the transactions involving mortgage loans, personal loans, hire purchase and leasing debts and Islamic financing facilities as well as issuance of unsecured Corporate Bonds and Sukuk are transacted with the shareholders of the ultimate holding company. These transactions have been disclosed on the statement of financial position and income statement of the Group and the Company.

Set out below are significant related party transactions and balances of the Group and the Company.

	<u>Related company</u> RM'000	<u>Group Other related party</u> RM'000
2016		
<u>Income</u>		
Transaction administrator and administrator fees	4,829	-
	<u> </u>	<u> </u>
<u>Expenses</u>		
FAST* and RENTAS** charges	-	(1)
Servicers fees	3,202	-
	<u> </u>	<u> </u>

* Denotes Fully Automated System for Issuing and Tendering ("FAST").

** Denotes Real-Time Electronic Transfer of Funds and Securities ("RENTAS").

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**33 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)****(b) Significant related party transactions and balances (continued)**

	<u>Related company RM'000</u>	<u>Group Other related party RM'000</u>
2016 (continued)		
<u>Amount due from/(to)</u>		
Transaction administrator and administrator fees	436	-
BNM current accounts	-	25
Servicers fees	-	(770)
	<u> </u>	<u> </u>
2015		
<u>Income</u>		
Transaction administrator and administrator fees	5,331	-
	<u> </u>	<u> </u>
<u>Expenses</u>		
FAST* and RENTAS** charges	-	31
Guarantee and Wakalah fee	37	-
Servicers fees	3,585	-
	<u> </u>	<u> </u>
<u>Amount due from/(to)</u>		
Transaction administrator and administrator fees	557	-
BNM current accounts	-	27
Reimbursement of operating expenses	-	18
Servicers fees	-	(863)
	<u> </u>	<u> </u>

* Denotes Fully Automated System for Issuing and Tendering ("FAST").

** Denotes Real-Time Electronic Transfer of Funds and Securities ("RENTAS").

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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

			Company
	<u>Subsidiaries</u>	<u>Related</u>	<u>Other</u>
	<u>RM'000</u>	<u>company</u>	<u>related</u>
		<u>RM'000</u>	<u>party</u>
			<u>RM'000</u>
2016			
<u>Income</u>			
Transaction administrator and administrator fees	-	4,829	-
	<u> </u>	<u> </u>	<u> </u>
<u>Expenses</u>			
FAST* and RENTAS** charges	-	-	(1)
Servicers fees	-	-	3,202
Interest expense	141,329	-	-
Profit charged	16,901	-	-
	<u> </u>	<u> </u>	<u> </u>
<u>Amount due from/(to)</u>			
Transaction administrator and administrator fees	-	436	-
BNM current accounts	-	-	25
Servicers fees	-	-	(770)
Loans/financing	(6,340,542)	-	-
Payment on behalf	4,951	-	-
	<u> </u>	<u> </u>	<u> </u>

* Denotes Fully Automated System for Issuing and Tendering ("FAST").

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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

			Company
	<u>Subsidiaries</u>	<u>Related</u>	<u>Other</u>
	<u>RM'000</u>	<u>company</u>	<u>related</u>
		<u>RM'000</u>	<u>party</u>
			<u>RM'000</u>
2015			
<u>Income</u>			
Transaction administrator and administrator fees	-	5,331	-
<u>Expenses</u>			
FAST* and RENTAS** charges	-	-	31
Guarantee and Wakalah fee	-	37	-
Servicers fees	-	-	3,585
Interest expense	112,005	-	-
Profit charged	3,015	-	-
<u>Amount due from/(to)</u>			
Transaction administrator and administrator fees	-	557	-
BNM current accounts	-	-	27
Reimbursement of operating expenses	-	-	18
Servicers fees	-	-	(863)
Loans/financing	(5,235,440)	-	-
Payment on behalf	7,344	-	-

* Denotes Fully Automated System for Issuing and Tendering ("FAST").

** Denotes Real-Time Electronic Transfer of Funds and Securities ("RENTAS").

The Group and the Company key management personnel received remuneration for services rendered during the financial year. The total compensation paid to the Group's key management personnel was RM8,049,828 (2015: RM7,621,611).

The total remuneration paid to the Directors is disclosed in Note 30 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Transactions with the GOM and its related parties

As BNM has significant influence over the ultimate holding company, the GOM and entities controlled, jointly controlled or has significant influence by the GOM are related parties of the Group and the Company.

The Group and the Company enter into transactions with many of these entities to purchase mortgage loans, personal loans and hire purchase and leasing debts and to issue bonds and notes to finance the purchase as part of its normal operations. The Group and the Company also purchase Islamic financing facilities such as home financing, personal financing and hire purchase financing and funded by issuance of Sukuk.

34 CAPITAL COMMITMENTS

	<u>Group and Company</u>	
	2016	2015
	RM'000	RM'000
<i>Capital expenditure:</i>		
Authorised and contracted for	20,501	4,908
Authorised but not contracted for	3,258	2,002
	<u>23,759</u>	<u>6,910</u>
<i>Analysed as follows:</i>		
Equipment and others	616	2,510
Computer hardware and software	23,143	4,400
	<u>23,759</u>	<u>6,910</u>

35 LEASE COMMITMENTS

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

	<u>Group and Company</u>	
	2016	2015
	RM'000	RM'000
Maturing within one year	4,618	3,502
One to three years	3,700	3,797
Three to five years	96	85
	<u>8,414</u>	<u>7,384</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The tables also represent a static position which provides an indication of the potential impact on the Group's and the Company'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 and the Company's shareholder's funds, unsecured bearer bonds and notes/Sukuk or money market borrowings.

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 INTEREST/PROFIT RATE RISK (CONTINUED)

	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/ Non-profit bearing RM'000	Total RM'000
<u>Group</u>						
2016						
Financial assets						
Cash and short-term funds	363,865	-	-	-	45,531	409,396
AFS investment securities	284,709	285,505	154,459	925,845	-	1,650,518
Amount due from counterparties	5,154,450	8,135,868	50,824	955,023	-	14,296,165
Islamic financing assets	3,001,966	1,387,816	500,003	417,904	-	5,307,689
Mortgage assets:						
- Conventional	935,176	1,218,288	1,148,044	3,910,131	(973,302)	6,238,337 ¹
- Islamic	726,071	958,087	980,438	4,924,612	(927,115)	6,662,093 ²
Hire purchase assets:						
- Conventional	2	-	-	-	(2)	- ³
- Islamic	2,001	153	-	-	(230)	1,924 ⁴
Other assets	27,727	37,832	653	8,443	848,049	922,704
	<u>10,495,967</u>	<u>12,023,549</u>	<u>2,834,421</u>	<u>11,141,958</u>	<u>(1,007,069)</u>	<u>35,488,826</u>

¹ Includes impairment losses on conventional mortgage assets of RM38,370,723

² Includes impairment losses on Islamic mortgage assets of RM30,146,432

³ Includes impairment losses on conventional hire purchase assets of RM2,059

⁴ Includes impairment losses on Islamic hire purchase assets of RM214,714

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 INTEREST/PROFIT RATE RISK (CONTINUED)

	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/ Non-profit bearing RM'000	Total RM'000
<u>Group</u>						
2016						
Financial liabilities						
Unsecured bearer bonds and notes						
Sukuk	6,260,024	10,171,562	855,000	3,660,000	-	20,946,586
Other liabilities	3,242,363	2,352,550	1,425,000	4,195,000	-	11,214,913
	13,154	-	-	20,434	77,701	111,289
	<u>9,515,541</u>	<u>12,524,112</u>	<u>2,280,000</u>	<u>7,875,434</u>	<u>77,701</u>	<u>32,272,788</u>
Total interest/profit sensitivity gap	<u>980,426</u>	<u>(500,563)</u>	<u>554,421</u>	<u>3,266,524</u>		
Cumulative gap	<u>980,426</u>	<u>479,863</u>	<u>1,034,284</u>	<u>4,300,808</u>		

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**36 INTEREST/PROFIT RATE RISK (CONTINUED)**

	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/ Non-profit bearing RM'000	Total RM'000
<u>Group</u>						
2015						
Financial assets						
Cash and short-term funds	197,004	-	-	-	46,908	243,912
AFS investment securities	328,719	354,339	229,666	880,893	-	1,793,617
Amount due from counterparties	1,051,156	7,183,539	1,781,284	955,000	-	10,970,979
Islamic financing assets	1,237,569	3,385,075	524,092	434,713	-	5,581,449
Mortgage assets:						
- Conventional	1,012,079	1,262,218	1,202,930	4,409,314	(1,104,774)	6,781,767 ⁴¹
- Islamic	711,515	901,258	918,230	5,521,613	(1,045,974)	7,006,642 ⁴²
Hire purchase assets:						
- Conventional	5	-	-	-	(1)	4 ⁴³
- Islamic	2,872	1,397	-	-	(164)	4,105 ⁴⁴
Other assets	2,908	35,769	667	2,481	657,440	699,265
	<u>4,543,827</u>	<u>13,123,595</u>	<u>4,656,869</u>	<u>12,204,014</u>	<u>(1,446,565)</u>	<u>33,081,740</u>

⁴¹ Includes impairment losses on conventional mortgage assets of RM40,386,741.⁴² Includes impairment losses on Islamic mortgage assets of RM36,167,295⁴³ Includes impairment losses on conventional hire purchase assets of RM1,204.⁴⁴ Includes impairment losses on Islamic hire purchase assets of RM70,197

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 INTEREST/PROFIT RATE RISK (CONTINUED)

	Within one year RM'000	One to three years RM'000	Three to five years RM'000	More than five years RM'000	Non-interest/ Non-profit bearing RM'000	Total RM'000
<u>Group</u>						
2015						
Financial liabilities						
Unsecured bearer bonds and notes	2,340,625	8,147,349	3,531,750	3,975,000	-	17,994,724
Sukuk	2,838,966	3,073,067	1,592,000	4,440,000	-	11,944,033
Other liabilities	15,879	-	-	17,979	93,929	127,787
	<u>5,195,470</u>	<u>11,220,416</u>	<u>5,123,750</u>	<u>8,432,979</u>	<u>93,929</u>	<u>30,066,544</u>
Total interest/profit sensitivity gap	<u>(651,643)</u>	<u>1,903,179</u>	<u>(466,881)</u>	<u>3,771,035</u>		
Cumulative gap	<u>(651,643)</u>	<u>1,251,536</u>	<u>784,655</u>	<u>4,555,690</u>		

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 INTEREST/PROFIT RATE RISK (CONTINUED)

	<u>Company</u>	Within one year RM'000	One to three years RM'000	Three to five years RM'000	More than five years RM'000	Non-interest/ Non-profit bearing RM'000	<u>Total</u> RM'000
2016							
Financial assets							
Cash and short-term funds		363,865	-	-	-	41,611	405,476
AFS investment securities		284,709	285,505	154,459	925,845	-	1,650,518
Amount due from counterparties		5,154,450	8,135,868	50,824	955,023	-	14,296,165
Islamic financing assets		3,001,966	1,387,816	500,003	417,904	-	5,307,689
Mortgage assets:							
- Conventional		935,176	1,218,288	1,148,044	3,910,131	(973,302)	6,238,337 ^{*1}
- Islamic		726,071	958,087	980,438	4,924,612	(927,115)	6,662,093 ^{*2}
Hire purchase assets:							
- Conventional		2	-	-	-	(2)	- ^{*3}
- Islamic		2,001	153	-	-	(230)	1,924 ^{*4}
Other assets		27,727	37,823	653	8,443	852,949	927,604
		<u>10,495,967</u>	<u>12,023,549</u>	<u>2,834,421</u>	<u>11,141,958</u>	<u>(1,006,089)</u>	<u>35,489,806</u>

^{*1} Includes impairment losses on conventional mortgage assets of RM38,370,723.

^{*2} Includes impairment losses on Islamic mortgage assets of RM30,146,432

^{*3} Includes impairment losses on conventional hire purchase assets of RM2,059.

^{*4} Includes impairment losses on Islamic hire purchase assets of RM214,714.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 INTEREST/PROFIT RATE RISK (CONTINUED)

	Within one year RM'000	One to three years RM'000	Three to five years RM'000	More than five years RM'000	Non-interest/ Non-profit bearing RM'000	Total RM'000
<u>Company</u>						
<u>2016</u>						
Financial liabilities						
Unsecured bearer bonds and notes						
Sukuk	3,973,096	6,592,331	855,000	3,660,000	-	15,080,427
Loans/financing from subsidiary	2,773,610	2,352,550	1,425,000	4,195,000	-	10,746,160
Other liabilities	2,759,942	3,580,600	-	-	-	6,340,542
	13,154	-	-	20,434	76,689	110,277
	<u>9,519,802</u>	<u>12,525,481</u>	<u>2,280,000</u>	<u>7,875,434</u>	<u>76,689</u>	<u>32,277,406</u>
Total interest/profit sensitivity gap	<u>976,165</u>	<u>(501,932)</u>	<u>554,421</u>	<u>3,266,524</u>		
Cumulative gap	<u>976,165</u>	<u>474,233</u>	<u>1,028,654</u>	<u>4,295,178</u>		

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 INTEREST/PROFIT RATE RISK (CONTINUED)

Company

2015

Financial assets

	Within one year RM'000	One to three years RM'000	Three to five years RM'000	More than five years RM'000	Non-interest/ Non-profit bearing RM'000	Total RM'000
Cash and short-term funds	197,004	-	-	-	46,785	243,789
AFS investment securities	328,719	354,339	229,666	880,893	-	1,793,617
Amount due from counterparties	1,051,156	7,183,539	1,781,284	955,000	-	10,970,979
Islamic financing assets	1,237,569	3,385,075	524,092	434,713	-	5,581,449
Mortgage assets:						
- Conventional	1,012,079	1,262,218	1,202,930	4,409,314	(1,104,774)	6,781,767 ^{A1}
- Islamic	711,515	901,258	918,230	5,521,613	(1,045,974)	7,006,642 ^{A2}
Hire purchase assets:						
- Conventional	5	-	-	-	(1)	4 ^{A3}
- Islamic	2,872	1,397	-	-	(164)	4,105 ^{A4}
Other assets	2,908	35,769	667	2,481	664,741	706,566
	<u>4,543,827</u>	<u>13,123,595</u>	<u>4,656,869</u>	<u>12,204,014</u>	<u>(1,439,387)</u>	<u>33,088,918</u>

^{A1} Includes impairment losses on conventional mortgage assets of RM40,386,741.

^{A2} Includes impairment losses on Islamic mortgage assets of RM36,167,295

^{A3} Includes impairment losses on conventional hire purchase assets of RM1,204.

^{A4} Includes impairment losses on Islamic hire purchase assets of RM70,197

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 INTEREST/PROFIT RATE RISK (CONTINUED)

	Within one year RM'000	One to three years RM'000	Three to five years RM'000	More than five years RM'000	Non-interest/ Non-profit bearing RM'000	Total RM'000
<u>Company</u>						
<u>2015</u>						
Financial liabilities						
Unsecured bearer bonds and notes						
Sukuk	2,328,923	5,575,985	1,385,000	3,975,000	-	13,264,908
Loans/financing from subsidiary	2,343,883	3,073,067	1,592,000	4,440,000	-	11,448,950
Other liabilities	517,326	2,571,364	2,146,750	-	-	5,235,440
	15,879	-	-	17,979	92,644	126,502
	<u>5,206,011</u>	<u>11,220,416</u>	<u>5,123,750</u>	<u>8,432,979</u>	<u>92,644</u>	<u>30,075,800</u>
Total interest/profit sensitivity gap	(662,184)	1,903,179	(466,881)	3,771,035		
Cumulative gap	(662,184)	1,240,995	774,114	4,545,149		

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**36 INTEREST/PROFIT RATE RISK (CONTINUED)**

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

	+100 basis		Group -100 basis	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
AFS reserves	(58,568)	(64,708)	62,305	68,911
PWR (floating rate)	(3,429)	(12,430)	3,565	15,847
Unsecured bonds and notes (floating rate)	3,168	2,097	(3,213)	(2,174)
Taxation effects on the above at tax rate of 24% (2015:25%)	14,119	18,760	(15,038)	(20,646)
Effect on shareholder's funds	<u>(44,710)</u>	<u>(56,281)</u>	<u>47,619</u>	<u>61,938</u>
As percentage of shareholder's funds	<u>(1.4%)</u>	<u>(1.9%)</u>	<u>1.5%</u>	<u>2.1%</u>

	+100 basis		Company -100 basis	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
AFS reserves	(58,568)	(64,708)	62,305	68,911
Derivatives financial instruments	(6,831)	(15,613)	7,005	16,128
Loans/financing from subsidiaries	7,743	18,803	(7,918)	(19,369)
PWR (floating rate)	(3,429)	(12,430)	3,565	15,847
Unsecured bonds and notes (floating rate)	3,168	2,097	(3,213)	(2,174)
Taxation effects on the above at tax rate of 24% (2015:25%)	13,900	17,963	(14,819)	(19,836)
Effect on shareholder's funds	<u>(44,017)</u>	<u>(53,888)</u>	<u>46,925</u>	<u>59,507</u>
As percentage of shareholder's funds	<u>(1.5%)</u>	<u>(1.8%)</u>	<u>1.4%</u>	<u>2.0%</u>

37 CREDIT RISK**37.1 Credit risk concentration**

The Group's and the Company's counterparties are mainly the GOM, financial institutions and individuals in Malaysia. The financial institutions are governed by the Financial Services Act ("FSA"), 2013 and the Islamic Financial Services Act ("IFSA"), 2013 and are subject to periodic review by the BNM. The following tables summarise the Group's and the Company's maximum exposure to credit risk by counterparty or customer or the industry in which they are engaged as at the statement of financial position date.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 CREDIT RISK (CONTINUED)

37.1 Credit risk concentrations (continued)

Industrial analysis based on its industrial distribution

<u>Group</u>	Cash and short-term funds RM'000	Derivatives financial instruments RM'000	AFS investment securities RM'000	Amount due from counter parties RM'000	Islamic financing assets RM'000	Mortgage assets- Conventional RM'000	Mortgage assets- Islamic RM'000	Hire purchase assets- Conventional RM'000	Hire purchase assets- Islamic RM'000	Other assets RM'000	Total RM'000
2016											
Government bodies	-	-	572,718	-	-	-	-	-	-	2,062	574,780
Financial institutions:											
- Commercial banks	319,361	887,826	442,276	13,002,576	4,355,927	-	-	-	-	-	19,007,966
- Investment banks	90,033	-	-	-	-	-	-	-	-	-	90,033
Communication, electricity, gas and water	-	-	70,528	-	-	-	-	-	-	-	70,528
Transportation	-	-	194,967	-	-	-	-	-	-	-	194,967
Leasing	-	-	-	258,746	-	-	-	-	-	-	258,746
Consumers	-	-	-	-	-	6,238,337	6,662,093	-	1,924	-	12,902,354
Corporate	-	-	-	1,034,843	951,762	-	-	-	-	-	1,986,605
Construction	-	-	86,051	-	-	-	-	-	-	-	86,051
Others	2	-	283,978	-	-	-	-	-	-	7,527	291,507
Total	409,396	887,826	1,650,518	14,296,165	5,307,689	6,238,337	6,662,093	-	1,924	9,589	35,463,537

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 CREDIT RISK (CONTINUED)

37.1 Credit risk concentrations (continued)

Industrial analysis based on its industrial distribution

	Cash and short-term funds RM'000	Derivatives financial instruments RM'000	AFS investment securities RM'000	Amount due from counter parties RM'000	Islamic financing assets RM'000	Mortgage assets- Conventional RM'000	Mortgage assets- Islamic RM'000	Hire purchase assets- Conventional RM'000	Hire purchase assets- Islamic RM'000	Other assets RM'000	Total RM'000
Group											
2015											
Government bodies	-	-	759,573	-	-	-	-	-	-	2,275	761,848
Financial institutions:											
- Commercial banks	143,792	678,847	229,426	10,193,947	4,600,101	-	-	-	-	-	15,846,113
- Investment banks	100,120	-	-	-	-	-	-	-	-	-	100,120
Communication, electricity, gas and water	-	-	80,276	-	-	-	-	-	-	-	80,276
Transportation	-	-	252,782	-	-	-	-	-	-	-	252,782
Leasing	-	-	-	297,815	-	-	-	-	-	-	297,815
Consumers	-	-	-	-	-	6,781,767	7,006,642	4	4,105	-	13,792,518
Corporate	-	-	-	479,217	981,348	-	-	-	-	-	1,460,565
Construction	-	-	126,466	-	-	-	-	-	-	-	126,466
Others	-	-	345,094	-	-	-	-	-	-	7,447	352,541
Total	243,912	678,847	1,793,617	10,970,979	5,581,449	6,781,767	7,006,642	4	4,105	9,722	33,071,044

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 CREDIT RISK (CONTINUED)

37.1 Credit risk concentrations (continued)

Industrial analysis based on its industrial distribution (continued)

<u>Company</u>	Cash and short-term funds RM'000	Derivatives financial instruments RM'000	AFS investment securities RM'000	Amount due from counter parties RM'000	Islamic financing assets RM'000	Mortgage assets- Conventional RM'000	Mortgage assets- Islamic RM'000	Hire purchase assets- Conventional RM'000	Hire purchase assets- Islamic RM'000	Other assets RM'000	Total RM'000
2016											
Government bodies	-	-	572,718	-	-	-	-	-	-	2,062	574,780
Financial institutions:											
- Commercial banks	315,441	887,826	442,276	13,002,576	4,355,927	-	-	-	-	-	19,004,046
- Investment banks	90,033	-	-	-	-	-	-	-	-	-	90,033
Communication, electricity, gas and water	-	-	70,528	-	-	-	-	-	-	-	70,528
Transportation	-	-	194,967	-	-	-	-	-	-	-	194,967
Leasing	-	-	-	258,746	-	-	-	-	-	-	258,746
Consumers	-	-	-	-	-	6,238,337	6,662,093	-	1,924	-	12,902,354
Corporate	-	-	-	1,034,843	951,762	-	-	-	-	-	1,986,605
Construction	-	-	86,051	-	-	-	-	-	-	-	86,051
Others	2	-	283,978	-	-	-	-	-	-	12,427	296,407
Total	405,476	887,826	1,650,518	14,296,165	5,307,689	6,238,337	6,662,093	-	1,924	14,489	35,464,517

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 CREDIT RISK (CONTINUED)

37.1 Credit risk concentrations (continued)

Industrial analysis based on its industrial distribution (continued)

	Cash and short-term funds RM'000	Derivatives financial instruments RM'000	AFS investment securities RM'000	Amount due from counter parties RM'000	Islamic financing assets RM'000	Mortgage assets- Conventional RM'000	Mortgage assets- Islamic RM'000	Hire purchase assets- Conventional RM'000	Hire purchase assets- Islamic RM'000	Other assets RM'000	Total RM'000
<u>Company</u>											
2015											
Government bodies	-	-	759,573	-	-	-	-	-	-	2,276	761,848
Financial institutions:											
- Commercial banks	143,792	678,847	229,426	10,193,947	4,600,101	-	-	-	-	-	15,846,113
- Investment banks	100,120	-	-	-	-	-	-	-	-	-	100,120
Communication, electricity, gas and water	-	-	80,276	-	-	-	-	-	-	-	80,276
Transportation	-	-	252,782	-	-	-	-	-	-	-	252,782
Leasing	-	-	-	297,815	-	-	-	-	-	-	297,815
Consumers	-	-	-	-	-	6,781,767	7,006,642	4	4,105	-	13,792,518
Corporate	-	-	-	479,217	981,348	-	-	-	-	-	1,460,565
Construction	-	-	126,466	-	-	-	-	-	-	-	126,466
Others	-	-	345,094	-	-	-	-	-	-	14,747	359,841
Total	243,789	678,847	1,793,617	10,970,979	5,581,449	6,781,767	7,006,642	4	4,105	17,023	33,078,222

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 CREDIT RISK (CONTINUED)

37.2 Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets

All amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets are categorised as either:

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

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

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

<u>Group and Company</u>	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 loans RM'000	Coverage ratio %
2016							
Amount due from counterparties	14,296,165	-	14,296,165	-	14,296,165	-	-
Islamic financing assets	5,307,689	-	5,307,689	-	5,307,689	-	-
Mortgage assets:							
- Conventional	6,202,839	73,869	6,276,708	38,371	6,238,337	73,869	52
- Islamic	6,641,629	50,610	6,692,239	30,146	6,662,093	50,610	60
Hire purchase assets:							
- Conventional	-	2	2	2	-	2	100
- Islamic	1,798	341	2,139	215	1,924	341	63
	<u>32,450,120</u>	<u>124,822</u>	<u>32,574,942</u>	<u>68,734</u>	<u>32,506,208</u>	<u>124,822</u>	

* These assets have been provided for under collective assessment

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 CREDIT RISK (CONTINUED)

37.2 Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets (continued)

<u>Group and Company</u>	<u>Neither past due nor impaired</u> RM'000	<u>Past due but not individually impaired*</u> RM'000	<u>Total</u> RM'000	<u>Impairment allowance</u> RM'000	<u>Total carrying value</u> RM'000	<u>Credit risk loans</u> RM'000	<u>Coverage ratio</u> %
2015							
Amount due from counterparties	10,970,979	-	10,970,979	-	10,970,979	-	-
Islamic financing assets	5,581,449	-	5,581,449	-	5,581,449	-	-
Mortgage assets:							
- Conventional	6,738,803	83,351	6,822,154	40,387	6,781,767	83,351	48
- Islamic	6,974,277	68,532	7,042,809	36,167	7,006,642	68,532	53
Hire purchase assets:							
- Conventional	1	4	5	1	4	4	25
- Islamic	3,985	190	4,175	70	4,105	190	37
	<u>30,269,494</u>	<u>152,077</u>	<u>30,421,571</u>	<u>76,625</u>	<u>30,344,946</u>	<u>152,077</u>	

* These assets have been provided for under collective assessment

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**37 CREDIT RISK (CONTINUED)****37.2 Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets (continued)**

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

	Group and Company			
	<u>Strong</u>	<u>2016</u> <u>Total</u>	<u>Strong</u>	<u>2015</u> <u>Total</u>
	RM'000	RM'000	RM'000	RM'000
Amount due from counterparties	14,296,165	14,296,165	10,970,979	10,970,979
Islamic financing assets	5,307,689	5,307,689	5,581,449	5,581,449
Mortgage assets:				
- Conventional	6,202,839	6,202,839	6,738,803	6,738,803
- Islamic	6,641,629	6,641,629	6,974,277	6,974,277
Hire purchase assets:				
- Conventional	-	-	1	1
- Islamic	1,798	1,798	3,985	3,985
	<u>32,450,120</u>	<u>32,450,120</u>	<u>30,269,494</u>	<u>30,269,494</u>

The amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets of the Group and the Company has been identified with strong credit risk quality which has a very high likelihood for full recovery.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 CREDIT RISK (CONTINUED)

37.2 Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets (continued)

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

	<u>Group and Company</u>				
	<u>91 to 120 days</u>	<u>121 to 150 days</u>	<u>151 to 180 days</u>	<u>Over 180 days</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
2016					
Mortgage assets:					
- Conventional	5,719	3,138	3,268	61,744	73,869
- Islamic	4,519	3,480	2,124	40,487	50,610
Hire purchase assets:					
- Conventional	-	-	-	2	2
- Islamic	-	-	28	313	341
	<u>10,238</u>	<u>6,618</u>	<u>5,420</u>	<u>102,546</u>	<u>124,822</u>
2015					
Mortgage assets:					
- Conventional	6,046	4,896	5,461	66,948	83,351
- Islamic	6,134	4,323	5,271	52,804	68,532
Hire purchase assets:					
- Conventional	-	-	-	4	4
- Islamic	-	-	-	190	190
	<u>12,180</u>	<u>9,219</u>	<u>10,732</u>	<u>119,946</u>	<u>152,077</u>

For the purpose of this analysis, an asset is considered past due and included above when payment due under strict contractual terms is received late or missed. The amount included is either the entire financial asset, not just the payment, of both principal and interest, overdue on mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets. This may result from administrative delays on the side of the borrower leading to assets being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary.

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 CREDIT RISK (CONTINUED)

37.2 Amount due from counterparties, Islamic financing assets, mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets (continued)

For the financial year ended 31 December 2016, the Group and the Company have deemed it impracticable to disclose the financial effect of collateral for its mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets.

The movement in impairment allowance are as follows:

	<u>Group and Company</u>			
	As at 1 <u>January</u> RM'000	(Write-back) /allowance made RM'000	Allowance (written-off to) / written- back from principal balance <u>outstanding</u> RM'000	As at 31 <u>December</u> RM'000
2016				
Mortgage assets:				
- Conventional	40,387	(1,526)	(490)	38,371
- Islamic	36,167	(6,536)	515	30,146
Hire purchase assets:				
- Conventional	1	-	1	2
- Islamic	70	-	145	215
	<u>76,625</u>	<u>(8,062)</u>	<u>171</u>	<u>68,734</u>
2015				
Mortgage assets:				
- Conventional	40,657	2,527	(2,797)	40,387
- Islamic	31,743	5,595	(1,171)	36,167
Hire purchase assets:				
- Conventional	1	-	-	1
- Islamic	70	-	-	70
	<u>72,471</u>	<u>8,122</u>	<u>(3,968)</u>	<u>76,625</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 CREDIT RISK (CONTINUED)

37.3 AFS investment securities

AFS investment securities are measured on fair value basis. The Group and the Company use the rating by external rating agencies, mainly RAM and MARC. The table below presents an analysis of AFS investment securities external rating:

	Group and Company			
	Investment grade			Total
	GOM	AAA	AA1 to AA2/ AA+ to AA	
	RM'000	RM'000	RM'000	RM'000
2016				
Malaysian Government securities	10,060	-	-	10,060
Corporate Bonds	-	117,703	310,359	428,062
Government investment issues	442,200	-	-	442,200
Sukuk	-	288,731	59,871	348,602
Quasi Government Sukuk	340,328	-	-	340,328
Unit trust	-	-	81,266	81,266
Total	792,588	406,434	451,496	1,650,518
2015				
Malaysian Government securities	182,797	-	-	182,797
Corporate Bonds	-	101,501	251,071	352,572
Government investment issues	392,247	-	-	392,247
Sukuk	-	298,301	100,615	398,916
Quasi Government bonds	65,574	-	-	65,574
Quasi Government Sukuk	401,511	-	-	401,511
Total	1,042,129	399,802	351,686	1,793,617

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

37.4 Amount due from related company

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 CREDIT RISK (CONTINUED)

37.5 Offsetting financial instruments

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

Group and Company						
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
	RM'000	RM'000	RM'000	Financial instrument	Cash collateral placed	RM'000
2016						
Derivatives financial liabilities	(33,825)	-	(33,825)	-	13,690	(20,135)
2015						
Derivatives financial liabilities	(35,240)	-	(35,240)	-	16,600	(18,640)

38 LIQUIDITY RISK

38.1 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.

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38 LIQUIDITY RISK (CONTINUED)

38.2 Liquidity pool

The liquidity pool comprised the following cash and unencumbered assets:

	Cash and short term funds with licensed financial institutions	Derivative financial instruments	AFS investment securities	Mortgage assets	Islamic mortgage assets	Amount due from counterparties	Islamic financing assets	Other available liquidity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Group</u>									
2016	409,396	887,826	1,650,518	6,238,337	6,662,093	14,296,165	5,307,689	10,236	35,462,260
2015	243,912	678,847	1,793,617	6,781,767	7,006,642	10,970,979	5,581,449	12,418	33,069,631
<u>Company</u>									
2016	405,476	887,826	1,650,518	6,238,337	6,662,093	14,296,165	5,307,689	15,136	35,463,240
2015	243,789	678,847	1,793,617	6,781,767	7,006,642	10,970,979	5,581,449	12,374	33,069,464

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38 LIQUIDITY RISK (CONTINUED)

38.3 Contractual maturity of financial liabilities

The table below presents the cash flows payable by the Group and the Company under 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 and the Company manage the liquidity risk based on a different basis, which does not result in a significantly different analysis.

		Contractual maturity dates				
		On demand up to one month RM'000	One to three months RM'000	Three to twelve months RM'000	One to five years RM'000	Total RM'000
<u>Group</u>	2016					
	Financial liabilities					
	Unsecured bonds and notes	2,958	722,096	5,391,903	11,026,562	20,803,519
	Sukuk	-	1,048,751	2,080,000	3,777,550	11,101,301
	Other liabilities	-	-	-	-	41,209
		<u>2,958</u>	<u>1,770,847</u>	<u>7,471,903</u>	<u>14,804,112</u>	<u>31,946,029</u>
Assets held for managing liquidity risk		<u>517,919</u>	<u>1,166,321</u>	<u>8,091,461</u>	<u>11,133,515</u>	<u>35,728,700</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38 LIQUIDITY RISK (CONTINUED)

38.3 Contractual maturity of financial liabilities (continued)

The table below presents the cash flows payable by the Group and the Company under 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 and the Company manage the liquidity risk based on a different basis, which does not result in a significantly different analysis.

	Contractual maturity dates					Total RM'000
	On demand up to one 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	
<u>Group</u>						
2015						
Financial liabilities						
Unsecured bonds and notes						21,288,925
Sukuk	73,168	608,240	2,230,592	13,307,385	5,069,540	14,721,313
Other liabilities	44,908	175,525	2,671,253	6,016,729	5,812,898	46,239
	-	-	-	-	46,239	
	118,076	783,765	4,901,845	19,324,114	10,928,677	36,056,477
Assets held for managing liquidity risk	586,616	432,372	3,589,175	17,878,507	15,757,253	38,243,923

Company No.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38 LIQUIDITY RISK (CONTINUED)

38.3 Contractual maturity of financial liabilities (continued)

	Contractual maturity dates					Total RM'000
	On demand up to one 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	
<u>Company</u>						
2016						
Financial liabilities						
Unsecured bonds and notes	-	300,000	3,530,029	7,447,331	3,660,000	14,937,360
Sukuk	-	580,000	2,080,000	3,777,550	4,195,000	10,632,550
Loans/financing from subsidiary	3,017	892,764	1,864,161	3,580,600	-	6,340,542
Other liabilities	-	-	-	-	41,209	41,209
	<u>3,017</u>	<u>1,772,764</u>	<u>7,474,190</u>	<u>14,805,481</u>	<u>7,896,209</u>	<u>31,951,661</u>
Assets held for managing liquidity risk	<u>522,870</u>	<u>1,166,321</u>	<u>8,091,461</u>	<u>14,819,484</u>	<u>11,133,515</u>	<u>35,733,651</u>

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38 LIQUIDITY RISK (CONTINUED)

38.3 Contractual maturity of financial liabilities (continued)

	Contractual maturity dates					Total RM'000
	On demand up to one 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	
<u>Company</u>						
2015						
Financial liabilities						
Unsecured bonds and notes	69,770	587,531	2,126,488	8,326,913	5,069,540	16,180,242
Sukuk	44,908	175,525	2,508,503	6,016,729	5,812,898	14,721,313
Loans/financing from subsidiary	3,398	20,709	266,854	4,980,472	-	5,271,433
Other liabilities	-	-	-	-	46,239	46,239
	<u>118,076</u>	<u>783,765</u>	<u>4,901,845</u>	<u>19,324,114</u>	<u>10,928,677</u>	<u>36,056,477</u>
Assets held for managing liquidity risk	<u>586,616</u>	<u>432,372</u>	<u>3,589,175</u>	<u>17,878,507</u>	<u>15,757,253</u>	<u>38,243,923</u>

CAGAMAS BERHAD

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**38 LIQUIDITY RISK (CONTINUED)****38.4 Derivative liabilities**

The Group's and the Company's derivatives comprise IRS, IPRS and CCS entered by the Company for which net cash flows are exchanged for hedging purposes. The derivatives held by the Company are settled on either net or gross basis.

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

	Group and Company				
	On demand up to <u>one month</u>	One to three <u>months</u>	Three to twelve <u>months</u>	One to five <u>years</u>	Over five <u>years</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
					<u>Total</u> RM'000
2016					
Derivatives held for hedging					
- IRS/IPRS	-	1,243	(12,804)	(17,938)	(3,397)
- CCS/ICCS	-	(138)	(140)	-	-
					<u>(278)</u>
2015					
Derivatives held for hedging					
- IRS/IPRS	-	(4,213)	(4,722)	(22,317)	(5,521)
- CCS/ICCS-	-	(150)	3,480	(4,900)	-
					<u>(1,570)</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 FOREIGN EXCHANGE RISK

The Group and the Company are exposed to translation foreign exchange rate on its PWR assets and unsecured bonds and notes denominated in currencies other than the functional currencies of the Group.

The Group hedges 100% of its foreign currency denominated unsecured bonds and notes and Sukuk. The Group and the Company take minimal exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group and the Company manage its exposure by entering into derivatives contracts.

39.1 Exposure to foreign currency risk

	<u>CNH</u>	<u>HKD</u>	<u>USD</u>	<u>Group</u> <u>SGD</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
2016				
Derivatives financial instruments	-	583,885	3,280,824	1,508,608
Amount due from counterparties	974,781	-	-	-
	<u>974,781</u>	<u>583,885</u>	<u>3,280,824</u>	<u>1,508,608</u>
Unsecured bonds and notes	974,256	580,170	3,279,146	1,032,586
Sukuk	-	-	-	468,751
Derivatives financial instruments	1,397	-	-	-
	<u>975,653</u>	<u>580,170</u>	<u>3,279,146</u>	<u>1,501,337</u>
2015				
Derivatives financial instruments	-	567,089	2,610,756	1,117,065
Amount due from counterparties	990,676	-	-	-
	<u>990,676</u>	<u>567,089</u>	<u>2,610,756</u>	<u>1,117,065</u>
Unsecured bonds and notes	986,794	555,600	2,576,862	610,561
Sukuk	-	-	-	495,083
Derivatives financial instruments	2,828	-	-	-
	<u>989,622</u>	<u>555,600</u>	<u>2,576,862</u>	<u>1,105,644</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 FOREIGN EXCHANGE RISK (CONTINUED)

39.1 Exposure to foreign currency risk (continued)

	Company			
	<u>CNH</u>	<u>HKD</u>	<u>USD</u>	<u>SGD</u>
	RM'000	RM'000	RM'000	RM'000
2016				
Derivatives financial instruments	-	583,885	3,280,824	1,508,608
Amount due from counterparties	974,781	-	-	-
	<u>974,781</u>	<u>583,885</u>	<u>3,280,824</u>	<u>1,508,608</u>
Loans/financing from subsidiaries	975,934	580,170	3,282,148	1,502,290
Derivatives financial instruments	1,397	-	-	-
	<u>977,331</u>	<u>580,170</u>	<u>3,282,148</u>	<u>1,502,290</u>
2015				
Derivatives financial instruments	-	567,089	2,610,756	1,117,065
Amount due from counterparties	990,676	-	-	-
	<u>990,676</u>	<u>567,089</u>	<u>2,610,756</u>	<u>1,117,065</u>
Loans/financing from subsidiaries	990,575	555,600	2,580,140	1,109,125
Derivatives financial instruments	2,828	-	-	-
	<u>993,403</u>	<u>555,600</u>	<u>2,580,140</u>	<u>1,109,125</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 FOREIGN EXCHANGE RISK (CONTINUED)

39.2 Currency risk sensitivity analysis

A 1% weakening of the Ringgit Malaysia against the following currencies as at the date of statement of financial position would have increased equity and profit for the financial year as summarised in table below. The sensitivity analysis is based on foreign currency exchange rate variances that the Group and the Company considered to be reasonably possible at the end of the reporting period. The sensitivity analysis assumes that all other variable, in particular interest/profit rates, remained constant and ignores any impact of CCS/ICCS.

	Group		Company	
	Equity RM'000	Profit RM'000	Equity RM'000	Profit RM'000
2016				
CNH	(1)	-	(1)	-
HKD	(26)	-	(26)	-
USD	(5)	(1)	(5)	(1)
SGD	51	-	51	-
	<u>19</u>	<u>(1)</u>	<u>19</u>	<u>(1)</u>
2015				
CNH	(4)	(1)	(4)	(1)
HKD	48	-	48	-
USD	236	11	236	11
SGD	63	-	63	-
	<u>343</u>	<u>10</u>	<u>343</u>	<u>10</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 FAIR VALUE OF FINANCIAL INSTRUMENTS

40.1 Fair value of financial instruments carried at fair value

Financial instruments comprise financial assets, financial liabilities and off-statement of financial position financial instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The information presented herein represents the estimates of fair values as at the date of the statement of financial position.

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.

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

The derivatives financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest/profit 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.

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

The estimated fair value of the IRS, IPRS and CCS are based on the estimated cash flows discounted using the market interest/profit rate, taking into account the effect of the entity's net exposure to the credit risk of the counterparty at the statement of financial position date.

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

40.1 Fair value of financial instruments carried at fair value (continued)

	Group and Company			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
2016				
Assets				
AFS investment				
Securities	-	1,650,518	-	1,650,518
Derivatives				
financial				
instruments	-	887,826	-	887,826
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
Derivatives				
financial				
instruments	-	33,825	-	33,825
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2015				
Assets				
AFS investment				
Securities	-	1,793,617	-	1,793,617
Derivatives				
financial				
instruments	-	678,847	-	678,847
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
Derivatives				
financial				
instruments	-	35,240	-	35,240
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Fair value of financial instruments carried other than fair value

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 and deposits and placements with licensed financial institutions

The carrying amount of cash and short-term funds and deposits and placements with licensed financial institutions are used as reasonable estimate of fair values as the maturity is less than or equal to a month.

- (b) Other financial assets

Other financial assets include other debtors and deposits. The fair value of other financial assets is estimated at their carrying amount due to short tenure of less than one year.

- (c) Amount due from related company

The fair value of amount due from related company is estimated at their carrying amount due to short tenure of less than one year.

- (d) Other financial liabilities

Other financial liabilities include creditors and accruals. The fair value of other financial liabilities is estimated at their carrying amount due to short tenure of less than one year.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Fair value of financial instruments carried other than fair value (continued)

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

			Group	
	Carrying value	2016 Fair value	Carrying value	2015 Fair value
	RM'000	RM'000	RM'000	RM'000
Financial assets				
Amount due from counterparties	14,296,165	14,280,849	10,970,979	10,594,275
Islamic financing assets	5,307,689	5,332,670	5,581,449	5,504,046
Mortgage assets:				
- Conventional	6,238,337	7,291,685	6,781,767	7,752,970
- Islamic	6,662,093	7,698,475	7,006,642	8,016,214
Hire purchase assets:				
- Conventional	-	-	4	4
- Islamic	1,924	1,930	4,105	4,171
	<u>32,506,208</u>	<u>34,605,609</u>	<u>30,344,946</u>	<u>31,871,680</u>
Financial liabilities				
Unsecured bearer bonds and notes	20,946,586	21,317,956	17,994,724	18,276,359
Sukuk	11,214,913	11,587,453	11,944,033	12,254,959
	<u>32,161,499</u>	<u>32,905,409</u>	<u>29,938,757</u>	<u>30,531,318</u>

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Fair value of financial instruments carried other than fair value (continued)

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

			Company	
	Carrying value	2016 Fair value	Carrying value	2015 Fair value
	RM'000	RM'000	RM'000	RM'000
Financial assets				
Amount due from counterparties	14,296,165	14,280,849	10,970,979	10,594,275
Islamic financing assets	5,307,689	5,332,670	5,581,449	5,504,046
Mortgage assets:				
- Conventional	6,238,337	7,291,685	6,781,767	7,752,970
- Islamic	6,662,093	7,698,475	7,006,642	8,016,214
Hire purchase assets:				
- Conventional	-	-	4	4
- Islamic	1,924	1,930	4,105	4,171
	<u>32,506,208</u>	<u>34,605,609</u>	<u>30,344,946</u>	<u>31,871,680</u>
Financial liabilities				
Unsecured bearer bonds and notes	15,080,427	15,447,425	13,264,908	13,546,542
Sukuk	10,746,160	11,118,626	11,448,950	11,759,876
Loans/financing from subsidiary	6,340,542	6,237,081	5,235,440	5,055,007
	<u>32,167,129</u>	<u>32,803,132</u>	<u>29,949,298</u>	<u>30,361,425</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Fair value of financial instruments carried other than fair value (continued)

The fair value of the fixed rate assets portfolio of amount due from counterparties 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 and is therefore within Level 3 of the fair value hierarchy. The fair value of the floating rate assets portfolio of amount due from counterparties is based on their carrying amount as the repricing date of the floating rate assets portfolio is not greater than 6 months.

The fair value of the Islamic financing assets is based on the present value of estimated future cash flows discounted at the prevailing market rates of financing with similar credit risk and maturities at the statement of financial position date and is therefore within Level 3 of the fair value hierarchy.

The fair value of the mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets are derived at using the present value of future cash flows discounted based on the mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets yield to maturity at the statement of financial position date and, is therefore within Level 3 of the fair value hierarchy.

The fair value of the unsecured bearer bonds and notes and Sukuk are derived at using the present value of future cash flows discounted based on the coupon rate at the statement of financial position date and, is therefore within Level 3 of the fair value hierarchy.

41 SEGMENT REPORTING

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

(a) PWR

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 SEGMENT REPORTING (CONTINUED)

(b) PWOR

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

In each reporting segments, income is derived by seeking investments to maximise returns. These returns consist of interest/profit 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	Group Total RM'000
2016			
External revenue	871,751	862,517	1,734,268
External interest/profit expense	(709,773)	(605,723)	(1,315,496)
Profit from operations	88,974	243,061	332,035
Zakat	(610)	(401)	(1,011)
Taxation	(17,853)	(58,135)	(75,988)
Profit after taxation and zakat by segment	70,511	184,525	255,036
Segment assets	21,756,280	13,732,546	35,488,826
Segment liabilities	19,744,510	12,528,278	32,272,788
Other information:			
Capital expenditure	5,377	3,395	8,772
Depreciation and amortisation	1,556	983	2,539

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 SEGMENT REPORTING (CONTINUED)

	<u>PWR</u>	<u>PWOR</u>	<u>Group</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>Total</u>
			<u>RM'000</u>
2015			
External revenue	598,610	958,708	1,557,318
External interest/profit expense	(474,957)	(646,443)	(1,121,400)
Profit from operations	63,252	280,158	343,410
Zakat	(1,600)	(1,177)	(2,777)
Taxation	(15,110)	(69,975)	(85,085)
Profit after taxation and zakat by segment	46,542	209,006	255,548
Segment assets	18,353,539	14,728,201	33,081,740
Segment liabilities	17,536,509	12,530,035	30,066,544
Other information:			
Capital expenditure	1,041	835	1,876
Depreciation and amortisation	1,440	1,156	2,596

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 SEGMENT REPORTING (CONTINUED)

	<u>PWR</u>	<u>PWOR</u>	<u>Company</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>Total</u>
			<u>RM'000</u>
2016			
External revenue	<u>871,751</u>	<u>862,517</u>	<u>1,734,268</u>
External interest/profit expense	<u>(711,727)</u>	<u>(605,723)</u>	<u>(1,317,450)</u>
Profit from operations	87,394	243,061	330,455
Zakat	(610)	(401)	(1,011)
Taxation	<u>(17,833)</u>	<u>(58,135)</u>	<u>(75,968)</u>
Profit after taxation and zakat by segment	<u>68,951</u>	<u>184,525</u>	<u>253,476</u>
Segment assets	<u>21,757,260</u>	<u>13,732,546</u>	<u>35,489,806</u>
Segment liabilities	<u>19,749,129</u>	<u>12,528,277</u>	<u>32,277,406</u>
Other information:			
Capital expenditure	5,377	3,395	8,772
Depreciation and amortisation	<u>1,556</u>	<u>983</u>	<u>2,539</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 SEGMENT REPORTING (CONTINUED)

	<u>PWR</u>	<u>PWOR</u>	<u>Company</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>Total</u>
			<u>RM'000</u>
2015			
External revenue	595,596	958,708	1,554,304
External interest/profit expense	(475,829)	(646,443)	(1,122,272)
Profit from operations	61,235	280,158	341,393
Zakat	(1,600)	(1,177)	(2,777)
Taxation	(15,090)	(69,975)	(85,065)
Profit after taxation and zakat by segment	44,545	209,006	253,551
Segment assets	18,360,717	14,728,201	33,088,918
Segment liabilities	17,545,764	12,530,036	30,075,800
Other information:			
Capital expenditure	1,041	835	1,876
Depreciation and amortisation	1,440	1,156	2,596

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 CAPITAL ADEQUACY

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

- (a) To align with industry best practices and benchmark set by the regulators;
- (b) To safeguard the Group's and the Company's ability to continue as a going concern so that it can continue to provide returns for shareholder and benefit to other stakeholders; and
- (c) To maintain a strong capital base to support the development of its business.

The Group and the Company are not subject to the BNM Guidelines on the Capital Adequacy 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's and the Company's management, employing techniques based on the guidelines developed by the Basel Committee and as implemented by BNM, for supervisory purposes.

The regulatory capital comprise of two tiers:

- (a) Tier I capital: share capital (net of any book values of treasury shares) and other reserves which comprise retained profits and reserves created by appropriations of retained profits; and
- (b) Tier II capital: comprise collective impairment allowances on mortgage assets and hire purchase assets/Islamic mortgage assets and Islamic hire purchase assets.

Common equity tier 1 ("CET1") and Tier I capital ratios refer to the ratio of total Tier 1 capital to risk-weighted assets. Risk-weighted capital ratio ("RWCR") is the ratio of total capital to risk-weighted assets.

	Group		Company	
	2016	2015	2016	2015
	%	%	%	%
<u>Before deducting proposed final dividend*</u>				
CET I capital ratio	22.3	21.6	22.3	21.5
Tier I capital ratio	22.3	21.6	22.3	21.5
Total capital ratio	24.1	23.5	24.0	23.5
<u>After deducting proposed final dividend*</u>				
CET I capital ratio	22.2	21.5	22.2	21.5
Tier I capital ratio	22.2	21.5	22.2	21.5
Total capital ratio	23.9	23.4	23.9	23.4

* Refers to proposed final dividend which will be declared after the financial year.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**42 CAPITAL ADEQUACY (CONTINUED)**

Components of CET I, Tier I and Tier II capital:

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
CET1/Tier I capital				
Paid-up capital	150,000	150,000	150,000	150,000
Retained profits	3,088,931	2,863,895	3,085,293	2,861,816
	<u>3,238,931</u>	<u>3,013,895</u>	<u>3,235,293</u>	<u>3,011,816</u>
AFS reserve	(10,529)	(14,637)	(10,529)	(14,637)
Deferred taxation assets	(8,365)	-	(8,365)	-
Less : Regulatory reserves	<u>(173,564)</u>	<u>(189,647)</u>	<u>(173,564)</u>	<u>(189,647)</u>
	<u>3,046,473</u>	<u>2,809,611</u>	<u>3,042,835</u>	<u>2,807,532</u>
Tier II capital				
Allowance for impairment losses	68,734	76,625	68,734	76,625
Add : Regulatory reserves	<u>173,564</u>	<u>189,647</u>	<u>173,564</u>	<u>189,647</u>
Total Tier II capital	<u>242,298</u>	<u>266,272</u>	<u>242,298</u>	<u>266,272</u>
Total capital	<u>3,288,771</u>	<u>3,075,883</u>	<u>3,285,133</u>	<u>3,073,441</u>

The breakdown of risk-weighted assets by each major risk category is as follows:

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Credit risk	12,935,305	12,291,272	12,939,362	12,298,514
Operational risk	<u>722,196</u>	<u>786,063</u>	<u>722,196</u>	<u>786,063</u>
Total risk-weighted assets	<u>13,657,501</u>	<u>13,077,335</u>	<u>13,661,558</u>	<u>13,084,577</u>

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 ISLAMIC OPERATIONS

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	Group		Company	
		2016	2015	2016	2015
		RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short-term funds	(a)	133,084	79,629	133,084	79,629
Derivative financial instruments		23,025	4,270	23,025	4,270
AFS investment securities	(b)	40,119	85,825	40,119	85,825
Financing assets	(c)	5,307,689	5,581,449	5,307,689	5,581,449
Mortgage assets	(d)	6,657,724	7,000,180	6,657,724	7,000,180
Hire purchase assets	(e)	1,584	3,826	1,584	3,826
Other assets and prepayments		289,364	289,336	291,753	292,302
TOTAL ASSETS		12,452,589	13,044,515	12,454,978	13,047,481
LIABILITIES					
Sukuk	(f)	11,214,913	11,944,033	10,746,160	11,448,950
Deferred taxation		98	1,860	98	1,860
Other liabilities	(g)	131,540	91,727	599,741	588,774
TOTAL LIABILITIES		11,346,551	12,037,620	11,345,999	12,039,584
ISLAMIC OPERATIONS' FUNDS		1,106,038	1,006,895	1,108,979	1,007,897
TOTAL LIABILITIES AND ISLAMIC OPERATIONS' FUNDS		12,452,589	13,044,515	12,454,978	13,047,481

CAGAMAS BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**43 ISLAMIC OPERATIONS (CONTINUED)****INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Note	Group		Company	
		2016	2015	2016	2015
		RM'000	RM'000	RM'000	RM'000
Total income attributable		682,737	673,589	682,736	670,576
Income attributable to the					
Sukuk holders	(h)	(532,505)	(525,077)	(530,712)	(522,208)
Non-profit expense		(10,918)	(5,305)	(10,917)	(4,170)
Total income attributable	(i)	139,314	143,207	141,107	144,198
Administration and general					
expenses		(2,594)	(2,812)	(2,448)	(2,806)
Write-back/(allowance) of					
impairment losses		6,536	(5,595)	6,536	(5,595)
PROFIT BEFORE TAXATION					
AND ZAKAT		143,256	134,800	145,195	135,797
Zakat		(1,011)	(2,777)	(1,011)	(2,777)
Taxation		(37,478)	(37,478)	(37,478)	(37,478)
PROFIT FOR THE FINANCIAL					
YEAR		104,767	94,545	106,706	95,542

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 ISLAMIC OPERATIONS (CONTINUED)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Profit for the financial year	104,767	94,545	106,706	95,542
Other comprehensive (loss)/income:				
Items that may be subsequently reclassified to profit or loss				
AFS investment securities				
- Net (loss)/gain on fair value changes before taxation	(598)	517	(598)	517
- Deferred taxation	144	(124)	144	(124)
Cash flow hedge				
- Net (loss)/gain on cash flow hedge before taxation	(6,788)	2,167	(6,788)	2,167
- Deferred taxation	1,618	(227)	1,618	(227)
Other comprehensive (loss)/ income for the financial year net of taxation	(5,624)	2,333	(5,624)	2,333
Total comprehensive income for the financial year	99,143	96,878	101,082	97,875

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 ISLAMIC OPERATIONS (CONTINUED)

**CONSOLIDATED STATEMENT OF CHANGES IN ISLAMIC OPERATIONS' FUNDS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Allocated capital funds RM'000	AFS reserve RM'000	Cashflow hedge reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	Total RM'000
Group						
Balance as at 1 January 2016	294,159	361	6,496	95,598	610,281	1,006,895
Profit for the financial year	-	-	-	-	104,767	104,767
Other comprehensive loss	-	(454)	(5,170)	-	-	(5,624)
Total comprehensive (loss)/income for the financial year		(454)	(5,170)	-	104,767	99,143
Transfer to retained profits during the financial year	-	-	-	(6,461)	6,461	-
Balance as at 31 December 2016	<u>294,159</u>	<u>(93)</u>	<u>1,326</u>	<u>89,137</u>	<u>721,509</u>	<u>1,106,038</u>
Balance as at 1 January 2015	294,159	(32)	4,556	-	611,334	910,017
Profit for the financial year	-	-	-	-	94,545	94,545
Other comprehensive income	-	393	1,940	-	-	2,333
Total comprehensive income for the financial year	-	393	1,940	-	94,545	96,878
Transfer to regulatory reserve during the financial year	-	-	-	95,598	(95,598)	-
Balance as at 31 December 2015	<u>294,159</u>	<u>361</u>	<u>6,496</u>	<u>95,598</u>	<u>610,281</u>	<u>1,006,895</u>

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 ISLAMIC OPERATIONS (CONTINUED)

**STATEMENT OF CHANGES IN ISLAMIC OPERATIONS' FUNDS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Allocated capital funds RM'000	AFS reserve RM'000	Cashflow hedge reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	Total RM'000
Company						
Balance as at 1 January 2016	294,159	361	6,496	95,598	611,283	1,007,897
Profit for the financial year	-	-	-	-	106,706	106,706
Other comprehensive loss	-	(454)	(5,170)	-	-	(5,624)
Total comprehensive (loss)/income for the financial year	-	(454)	(5,170)	-	106,706	101,082
Transfer to retained earnings during the financial year	-	-	-	(6,461)	6,461	-
Balance as at 31 December 2016	<u>294,159</u>	<u>(93)</u>	<u>1,326</u>	<u>89,137</u>	<u>724,450</u>	<u>1,108,979</u>
Balance as at 1 January 2015	294,159	(32)	4,556	-	611,339	910,022
Profit for the financial year	-	-	-	-	95,542	95,542
Other comprehensive income	-	393	1,940	-	-	2,333
Total comprehensive income for the financial year	-	393	1,940	-	95,542	97,875
Transfer to regulatory reserve during the financial year	-	-	-	95,598	(95,598)	-
Balance as at 31 December 2015	<u>294,159</u>	<u>361</u>	<u>6,496</u>	<u>95,598</u>	<u>611,283</u>	<u>1,007,897</u>

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 ISLAMIC OPERATIONS (CONTINUED)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

Note	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
OPERATING ACTIVITIES				
Profit for the financial year	104,767	94,545	106,706	95,542
Adjustments for investment items and items not involving the movement of cash and cash equivalents:				
Amortisation of premium less accretion of discount on:				
- AFS investment securities	(3,152)	(2,360)	(3,152)	(2,360)
- Mortgage assets	(112,838)	(125,493)	(112,838)	(125,493)
- Hire purchases	(77)	(164)	(77)	(164)
- Sukuk	626	107	626	107
(Write-back)/allowance of impairment losses on Islamic mortgage assets and Islamic hire purchase assets	(6,536)	5,596	(6,536)	5,596
Income from:				
- AFS investment securities	(2,044)	(1,414)	(2,044)	(1,414)
- Operations	(558,515)	(537,459)	(558,515)	(537,459)
Profit attributable to Sukuk holders	522,315	520,313	519,592	519,142
Wakalah fee expense	-	37	-	37
Gain on disposal of AFS investment securities	-	(47)	-	(47)
Taxation	37,478	37,478	37,478	37,478
Zakat	1,011	2,777	1,011	2,777
Operating loss before working capital changes	(16,965)	(6,084)	(17,749)	(6,258)
Decrease in financing assets	275,436	947,574	275,436	947,574
Decrease in mortgage assets	452,490	430,610	452,490	430,610
Decrease in hire purchase assets	2,559	1,229	2,559	1,229
(Increase)/decrease in other assets and prepayments	(29)	3,524	548	(1,798)
Decrease in Sukuk	(846,079)	(1,300,485)	(817,026)	(1,792,040)
(Decrease)/increase in financing from subsidiary company	-	-	(28,663)	497,633
Increase in other liabilities	30,527	34,230	30,344	33,648
Cash (utilised in)/ generated from operating activities	(102,061)	110,598	(102,061)	110,598

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 ISLAMIC OPERATIONS (CONTINUED)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

	Note	Group		Company	
		2016	2015	2016	2015
		RM'000	RM'000	RM'000	RM'000
Profit received from assets		565,931	559,764	565,931	559,764
Profit paid to Sukuk holders		(405,981)	(539,964)	(405,981)	(539,964)
Payment of:					
- Taxation		(26,429)	(29,864)	(26,429)	(29,864)
- Zakat		(2,777)	(4,112)	(2,777)	(4,112)
Net cash generated from operations		28,683	96,422	28,683	96,422
INVESTING ACTIVITIES					
Purchase of AFS investment securities		(30,430)	(84,367)	(30,430)	(84,367)
Sale of AFS investment securities		78,688	51,949	78,688	51,949
Derivative financial instruments		(25,542)	4,005	(25,542)	4,005
Income received from AFS investment securities		2,056	1,420	2,056	1,420
Net cash generated/(utilised in) from investing activities		24,772	(26,993)	24,772	(26,993)
Net increase in cash and cash equivalents		53,455	69,429	53,455	69,429
Cash and cash equivalents as at 1 January		79,629	10,200	79,629	10,200
Cash and cash equivalents as at 31 December		133,084	79,629	133,084	79,629
Analysis of cash and cash equivalents as at 31 December					
Cash and short-term funds	(a)	133,084	79,629	133,084	79,629

CAGAMAS BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 ISLAMIC OPERATIONS (CONTINUED)

		<u>Group and Company</u>	
		2016	2015
		RM'000	RM'000
(a)	<i>Cash and short-term funds</i>		
	Cash and bank balances with bank and other financial institutions	96	42
	Mudharabah money at call and deposit placements maturing within one month	132,988	79,587
		<u>133,084</u>	<u>79,629</u>
(b)	<i>AFS investment securities</i>		
	<i>At fair value:</i>		
	Sukuk	10,044	85,825
	Government investment issues	30,075	-
		<u>40,119</u>	<u>85,825</u>
The maturity structure of AFS investment securities are as follows:			
	Maturing within one year	465	44,933
	One to three years	-	40,892
	More than five years	39,654	-
		<u>40,119</u>	<u>85,825</u>

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 ISLAMIC OPERATIONS (CONTINUED)

		<u>Group and Company</u>	
		<u>2016</u>	<u>2015</u>
		<u>RM'000</u>	<u>RM'000</u>
(c)	<i>Financing assets</i>		
	Relating to:		
	House financing	4,225,536	3,439,157
	Hire purchase financing	382,819	1,078,722
	Personal financing	699,334	1,063,570
		<u>5,307,689</u>	<u>5,581,449</u>
The maturity structure of financing assets are as follows:			
	Maturing within one year	3,001,966	1,237,569
	One to three years	1,387,816	3,385,075
	Three to five years	500,003	524,092
	More than five years	417,904	434,713
		<u>5,307,689</u>	<u>5,581,449</u>
(d)	<i>Mortgage assets</i>		
	PWOR	<u>6,657,724</u>	<u>7,000,180</u>
The maturity structure of mortgage assets are as follows:			
	Maturing within one year	724,663	710,261
	One to three years	956,214	899,223
	Three to five years	979,385	916,854
	More than five years	4,923,648	5,519,805
		<u>7,583,910</u>	<u>8,046,143</u>
	Less:		
	Unaccreted discount	(896,969)	(1,009,807)
	Allowance for impairment losses	(29,217)	(36,156)
		<u>6,657,724</u>	<u>7,000,180</u>

CAGAMAS BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**43 ISLAMIC OPERATIONS (CONTINUED)**

		<u>Group and Company</u>	
		2016	2015
		RM'000	RM'000
(e)	<i>Hire purchase assets</i>		
	PWOR	1,584	3,826
		<u>1,584</u>	<u>3,826</u>
	The maturity structure of hire purchase assets are as follows:		
	Maturing within one year	1,523	2,573
	One to three years	153	1,397
	Three to five years	-	-
		<u>1,676</u>	<u>3,970</u>
	Less:		
	Unaccreted discount	(17)	(94)
	Allowance for impairment losses	(75)	(50)
		<u>1,584</u>	<u>3,826</u>

		<u>Group</u>		<u>Company</u>	
		2016	2015	2016	2015
		RM'000	RM'000	RM'000	RM'000
(f)	<i>Sukuk</i>				
	Commercial Papers	500,248	-	500,248	-
	Medium-term notes	10,714,665	11,944,033	10,245,912	11,448,950
		<u>11,214,913</u>	<u>11,944,033</u>	<u>10,746,160</u>	<u>11,448,950</u>
	The maturity structure of Sukuk are as follows:				
	Maturing within one year	3,242,363	2,838,966	2,773,610	2,343,883
	One to three years	2,352,550	3,073,067	2,352,550	3,073,067
	Three to five years	1,425,000	1,592,000	1,425,000	1,592,000
	More than five years	4,195,000	4,440,000	4,195,000	4,440,000
		<u>11,214,913</u>	<u>11,944,033</u>	<u>10,746,160</u>	<u>11,448,950</u>

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 ISLAMIC OPERATIONS (CONTINUED)

(g) Other liabilities

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Zakat	1,011	2,777	1,011	2,777
Other payables	130,529	88,950	129,760	88,364
Financing from subsidiary	-	-	468,970	497,633
	<u>131,540</u>	<u>91,727</u>	<u>599,741</u>	<u>588,774</u>

(h) Income attributable to the Sukuk holders

Mortgage assets	310,814	328,255	309,021	325,386
Hire purchase assets	278	435	278	435
Financing assets	221,413	196,331	221,413	196,331
Deposits and placements of financial institutions	-	56	-	56
	<u>532,505</u>	<u>525,077</u>	<u>530,712</u>	<u>522,208</u>

Income attributable to Sukuk holders analysed by concept:

Bai Al-Dayn	532,505	525,021	530,712	522,152
Mudharabah	-	56	-	56
	<u>532,505</u>	<u>525,077</u>	<u>530,712</u>	<u>522,208</u>

(i) Total income attributable

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Income from:				
Mortgage assets	110,853	119,278	110,853	119,278
Hire purchase assets	(300)	(48)	(300)	(48)
Financing assets	28,329	21,836	30,121	21,692
AFS investment securities	5,195	3,835	5,195	3,835
Deposit and placements with financial institutions	6,155	3,611	6,155	3,611
Non-profit income expense	(10,918)	(5,305)	(10,917)	(4,170)
	<u>139,314</u>	<u>143,207</u>	<u>141,107</u>	<u>144,198</u>

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 ISLAMIC OPERATIONS (CONTINUED)

(i) Total income attributable (continued)

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Total net income analysed by concept are as follows:				
Bai Bithaman Ajil	-	303	-	303
Murabahah	801	1,056	801	1,056
Bai Al-Dayn	128,695	135,760	130,488	136,751
Mudharabah	8,668	6,088	8,668	6,088
Musyarakah	1,150	-	1,150	-
	<u>139,314</u>	<u>143,207</u>	<u>141,107</u>	<u>144,198</u>

(j) Capital adequacy

	Group		Company	
	2016	2015	2016	2015
	%	%	%	%
<u>Before deducting proposed final dividend*</u>				
CET I	22.5	18.2	22.6	18.2
Tier I capital ratio	22.5	18.2	22.6	18.2
Total capital ratio	<u>25.2</u>	<u>20.9</u>	<u>25.2</u>	<u>20.9</u>
<u>After deducting proposed* final dividend</u>				
CET I capital ratio	22.0	18.2	22.1	18.2
Tier I capital ratio	22.0	18.2	22.1	18.2
Total capital ratio	<u>24.7</u>	<u>20.9</u>	<u>24.7</u>	<u>20.9</u>

Components of CET I, Tier I and Tier II capital:

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
CET I/Tier I capital:				
Allocated capital funds	294,159	294,159	294,159	294,159
Retained profits	811,726	705,884	813,587	706,881
	<u>1,105,885</u>	<u>1,000,043</u>	<u>1,107,746</u>	<u>1,001,040</u>
Less: Regulatory reserves	(89,137)	(95,598)	(89,137)	(95,598)
AFS reserve	(93)	162	(93)	162
Total CET I/Tier I capital	<u>1,016,655</u>	<u>904,607</u>	<u>1,018,516</u>	<u>905,604</u>

* Refers to proposed final dividend which will be declared after the financial year.

CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 ISLAMIC OPERATIONS (CONTINUED)

(j) Capital adequacy (continued)

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Tier II capital:				
Add: Regulatory reserves	89,137	95,598	89,137	95,598
Allowance for impairment losses	30,361	36,236	30,361	36,236
Total Tier II capital	119,498	131,834	119,498	131,834
Total capital	1,136,153	1,036,441	1,138,014	1,037,438
	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
The breakdown of risk-weighted assets by each major risk category is as follows:				
Credit risk	4,235,172	4,656,965	4,237,559	4,659,931
Operational risk	277,449	302,816	277,449	302,816
Total risk-weighted assets	4,512,621	4,959,781	4,515,008	4,962,747

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

(k) Shariah advisor

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

Company No.

157931	A
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CAGAMAS BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

44 APPROVAL OF FINANCIAL STATEMENTS

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

Company No.

157931

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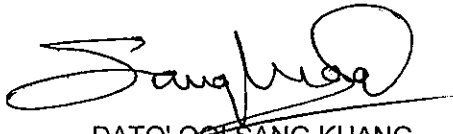
CAGAMAS BERHAD
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**STATEMENT BY DIRECTORS PURSUANT TO
SECTION 251(2) OF THE COMPANIES ACT, 2016**

We, Dato' Ooi Sang Kuang and Datuk Chung Chee Leong, the two Directors of Cagamas Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 6 to 125 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and financial performance of the Group and of the Company for the financial year ended 31 December 2016 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

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

17 MAR 2017



DATO' OOI SANG KUANG
CHAIRMAN



DATUK CHUNG CHEE LEONG
DIRECTOR

Kuala Lumpur

**STATUTORY DECLARATION PURSUANT TO
SECTION 251(1) OF THE COMPANIES ACT, 2016**

I, Norazilla Md Tahir, the Officer primarily responsible for the financial management of Cagamas Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 125 are, to the best of my knowledge and belief, 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.



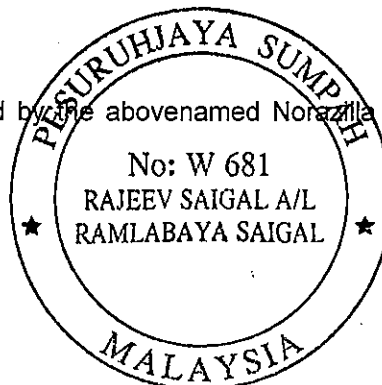
NORAZILLA MD TAHIR

Subscribed and solemnly declared by the abovenamed Norazilla Md Tahir at Kuala Lumpur in Malaysia on

24 MAR 2017



Before me,
COMMISSIONER FOR OATHS



NO. A-31-11, LEVEL 31,
TOWER A, MENARA UOA BANGSAR,
NO. 5, JALAN BANGSAR UTAMA 1,
BANGSAR, 59000 KUALA LUMPUR.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF CAGAMAS BERHAD
(Incorporated in Malaysia)
(Company No. 157931-A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Cagamas Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 125.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF CAGAMAS BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 157931-A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises Directors' Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of the financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF CAGAMAS BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company No. 157931-A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit 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 Group's and Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- (d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF CAGAMAS BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 157931-A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 auditors' 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.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF CAGAMAS BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 157931-A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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.

A handwritten signature in black ink, appearing to read 'Price Waterhouse Coopers'.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Soo Hoo Khoon Yeap'.

SOO HOO KHOON YEAP
(No. 2682/10/17 (J))
Chartered Accountant

Kuala Lumpur
24 March 2017