



Cagamas Berhad
The National Mortgage Corporation



Euromoney Saudi Arabia Conference 2013

Role of Cagamas Berhad in the Secondary Mortgage Market and Contribution to the Development of the Bond /Sukuk Market in Malaysia

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25
Years of
Housing the Nation



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- Commenced operations in 1987 as the National Mortgage Corporation
- Objective

To promote the broader spread of house ownership and growth of the secondary mortgage market in Malaysia



- Cagamas issues capital securities to finance the purchase of loans/financing assets (mainly mortgage) from financial institutions and non-financial institutions.
- The provision of liquidity to financial institutions at a competitive cost to the primary lenders of mortgage encourages further expansion of financing for houses at an affordable cost and increases home ownership by Malaysians.
- The Cagamas model is well regarded by the World Bank as a successful secondary mortgage liquidity facility.
- Cagamas' capital market securities continue to be assigned the highest ratings of AAA by RAM Rating Services Berhad and Malaysian Rating Corporation Berhad, denoting its strong credit quality.

• Sovereign Malaysia rating by international rating agencies are Fitch (A-), Moody (A3) and Standard & Poor (A-)



Key Financials as at 31 December 2012

- Profit before tax: RM293 million (equiv USD95 million)
- Asset size: RM23.3 billion (Islamic assets: 53% of total portfolio) – (equiv USD7.6 billion)
- Shareholders' funds: RM2.2 billion – (equiv USD0.71 billion)
- Return on Equity (ROE): 10.1%
- Risk Weighted Capital Ratio (RWCR): 24.4%

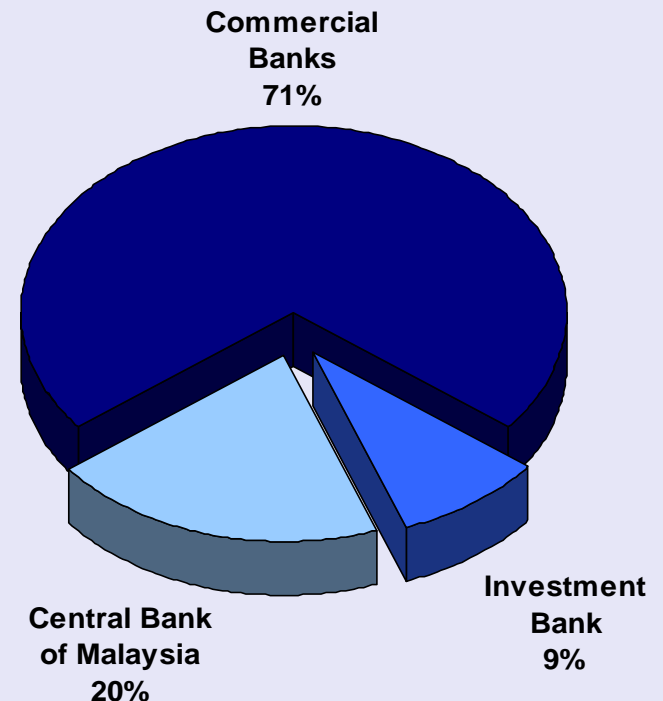
Corporate Bond and Sukuk Issuance (Cagamas Group) as at 31 December 2012

- Issued RM265.6 billion/ equiv USD86.19 billion bonds to date (Sukuk: RM34.4 billion/ equiv USD11.16 billion)
- Outstanding Bonds of RM26.7 billion/ equiv USD8.66 billion (Sukuk of RM14.4 billion / equiv USD4.69 billion)
- Accounts for 22% of AAA Outstanding Bonds (Sukuk 16% of AAA Outstanding)

Asset-Backed Securities (ABS) Issuance

- Issued RM10.2 billion / equiv USD3.31 billion Residential Mortgage-Backed Securities (RMBS) (Islamic RMBS – RM4.2 billion / equiv USD1.36 billion)
- Outstanding RMBS of RM6.03 billion /equiv USD1.96 billion (Islamic RMBS of RM2.85 billion / equiv USD0.92 billion)
- Accounts for 67% of AAA outstanding ABS (84% of AAA Islamic ABS)

Shareholding Structure as at 31 December 2012

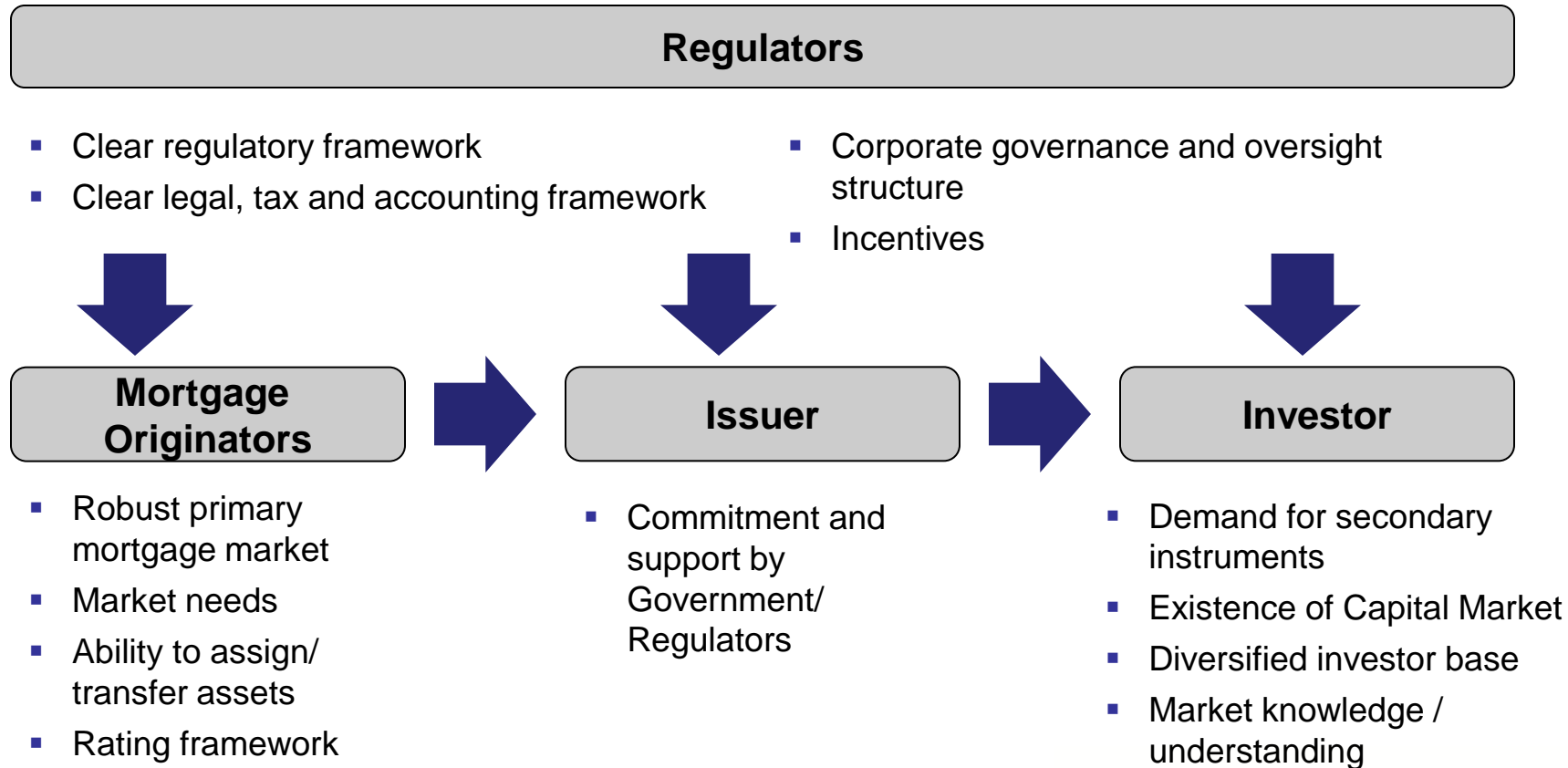




Secondary Mortgage Market : Background

The move to a Secondary Market – What is Required?

The World Bank identified the following areas as key pre-requisites for a successful secondary mortgage market:-





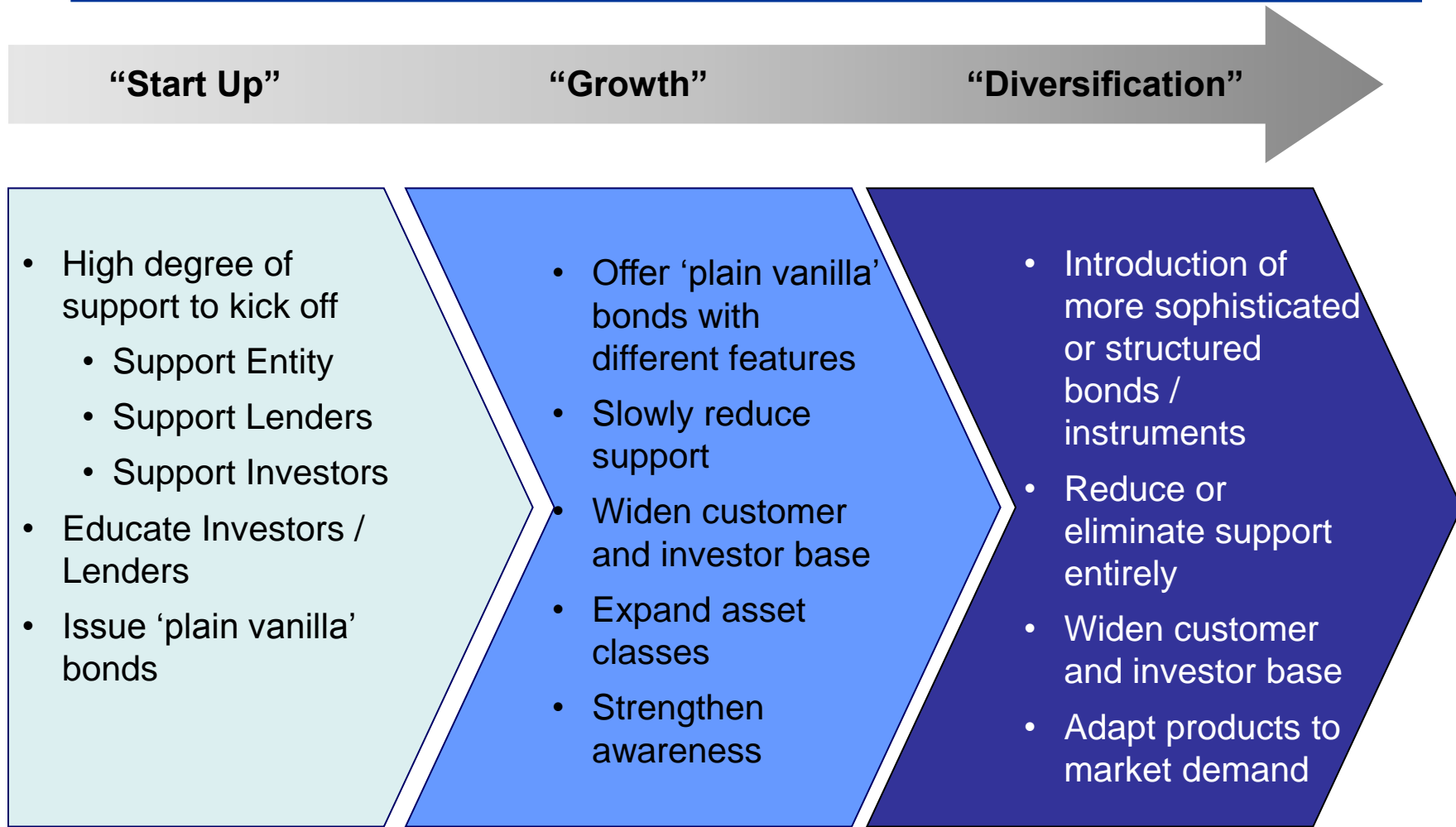
Secondary Mortgage Market

The move to a Secondary Market – How to do it?

- Malaysia's experience has found that a phased approach towards developing a mature secondary mortgage market is effective
- The phases should cover:
 - The level of support received from the Government
 - The type of approach or priority towards the market, e.g. creating awareness
 - The type of secondary mortgage market products introduced



Secondary Mortgage Market – Phase Approach



Developmental Role



Private Initiative





History & Structure

Establishment of Cagamas Berhad

- Creation of a secondary mortgage market as a result of a liquidity crunch in the 1980s and public policy objective of a “homeownership democracy”
- Spearhead the development of Private Debt Securities (PDS) market
- The market situation in the mid-1980’s:-

Funding mismatch in financial institutions resulting in liquidity crunch

Financial institutions were not lending to homebuyers despite demand

Limited funding source in the market – no bond market



There was a need in the market for an institution to:-

1. Function as intermediary between primary lenders and investors of long term funds; and
2. Take on role of credible issuer of mortgage securities

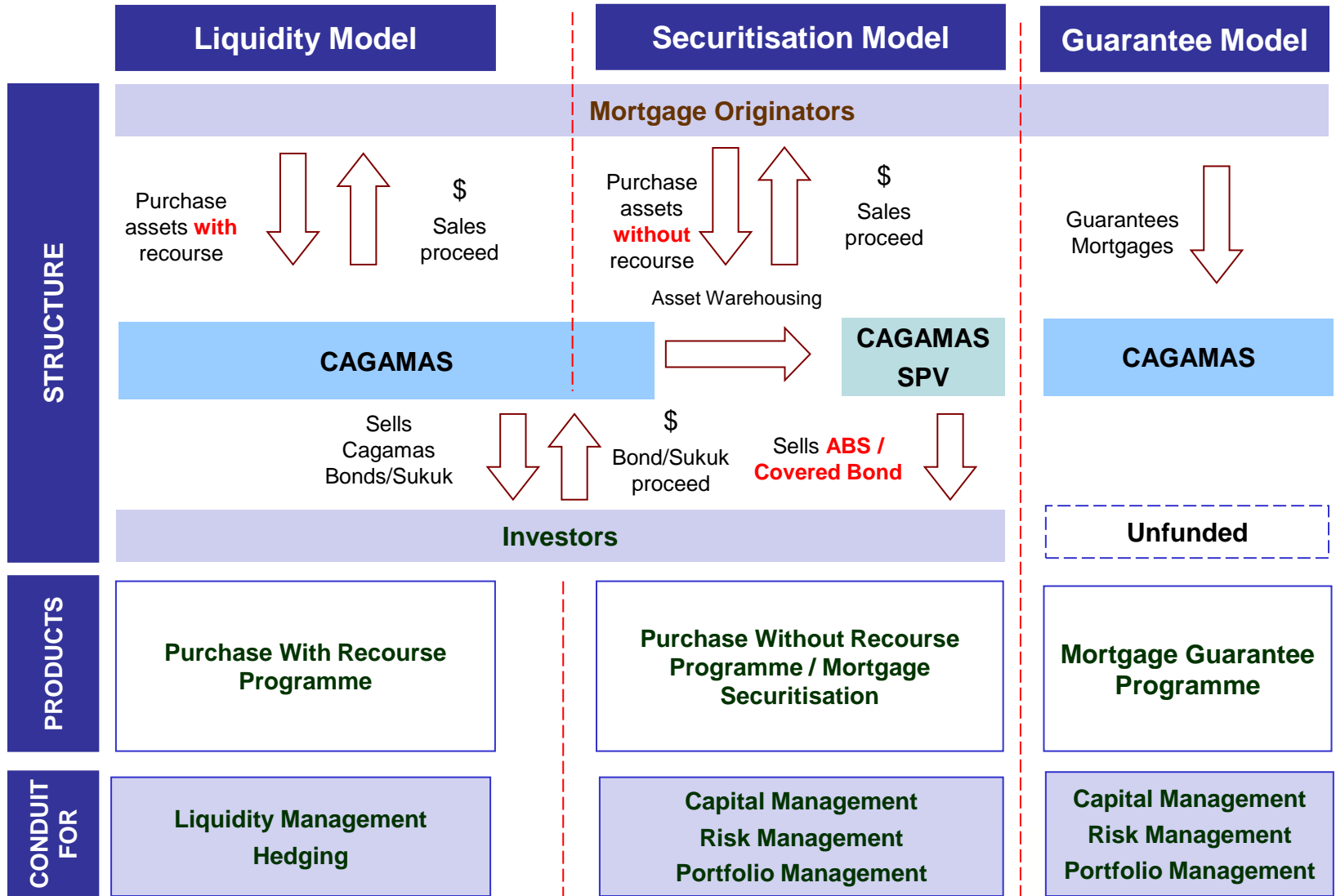


History & Structure

Cagamas - A phase approach in developing the market

	Structure	Asset	Bond/Sukuk
1987 - 1991	<ul style="list-style-type: none"> PWR (1987) 	<ul style="list-style-type: none"> Housing loans on fixed rate basis (1987) Housing loans on floating rate basis (1992) Staff housing loans from selected corporation (1994) Industrial property loans (1996) Hire purchase and leasing debts (1998) 	<ul style="list-style-type: none"> 5 year fixed rate bonds (1987) 3-year fixed rate bonds (1989) 7-year fixed rate bonds (1990) Floating rate bonds (1992)
1992 - 2005	<ul style="list-style-type: none"> Residential Mortgage-Backed Securities (RMBS) (2004) 	<ul style="list-style-type: none"> Islamic Hire Purchase Financing (2002) Credit card receivables (2003) Small Medium Enterprise Loans (2007) 	<ul style="list-style-type: none"> Sukuk Mudharabah (1994) RMBS(2004) Sukuk Musyarakah RMBS (2005)
2006 onwards	<ul style="list-style-type: none"> Purchases Without Recourse (2007) Synthetic Securitisation (2007) Mortgage Guarantee (2008) 	<ul style="list-style-type: none"> Islamic personal financing (2008) Rahn financing (2008) 	<ul style="list-style-type: none"> CP MTN program (2007) Sukuk Commodity Murabahah (2009)

Islamic Instruments





Business Model (cont)

- Cagamas purchases both **conventional loans** and **Islamic financing** and fund the purchases through the issuance of conventional and Islamic capital market securities.
- Loans / financing are purchased either on a with recourse to the originator basis (PWR); or on a without recourse basis (PWOR)
- MGP offers 'first loss' protection on a mortgage portfolio while the mortgage assets remain on the Originator's books
- Cagamas began to purchase non-mortgage assets beginning of the year 1998. As at to date, mortgage assets constitute 70% of total assets purchased and 51% from the total assets is Islamic assets.

Type of Loans / Financing Purchased:

Purchase with Recourse (PWR)

- Conventional Housing Loans
- Islamic House Financing
- Industrial Property Loans
- Hire Purchase and Leasing
- Islamic Hire Purchase
- Islamic Personal Financing
- Rahn Financing

Purchase without Recourse (PWOR)

- Conventional Housing Loans
- Islamic House Financing
- Hire Purchase
- Islamic Hire Purchase

Mortgage Guarantee Programme (MGP)

- Conventional Housing Loans
- Islamic House Financing



Role of Cagamas in developing the secondary mortgage facility in Malaysia:

- Catalyst for the Government's and Central Bank's initiative for the economy and financial sector
- 4 key areas:-





Role of Cagamas

1

Promotion of home ownership/home accessibility and affordability in Malaysia

- Provide liquidity and hedging to mortgage financier – PWR programme
- Provide match funding – multi-tenor Private Debt Securities(PDS)
- Provide lower cost of funds – AAA funding and high demand of Cagamas Securities.
- Link the mortgage market to the capital market securities – development of the Residential Mortgage Backed Securities (RMBS) market for both conventional and Islamic
- Develop innovative structures for mortgage financier – mortgage guarantee under the My First Home Scheme (SRP) to promote home ownership among young working adults

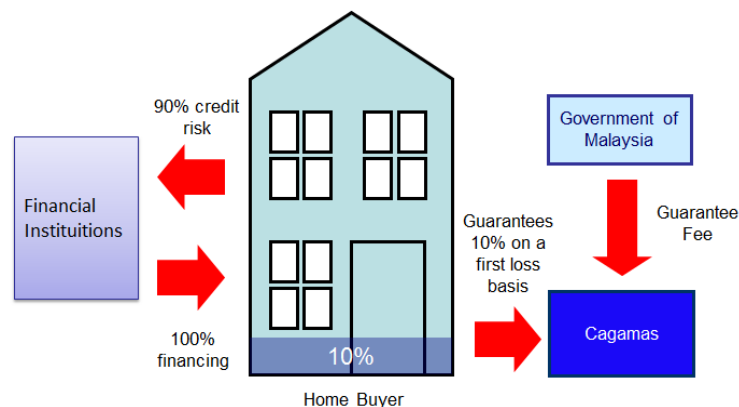


Launching of My First Home Scheme by Malaysian Prime Minister, Dato' Sri Mohd Najib Tun Razak in 2011



My First Home Scheme

- Introduced in January 2011, initiated by Ministry of Finance Malaysia to assist young urban adults who have just joined the workforce to own their first home through 100% financing
- As at February 2013, asset under protection/ guaranteed is RM52.3 million or 352 loans with a total of 22 participating banks
- The structure of “My First Home Scheme” is illustrated as below:



Schemes	My First Home Scheme
Target segment	Young adults entering the workforce with fixed income. 35 years old or less (age next birthday is 36 years old or less)
Salary Range	Gross income of not more than RM5,000 per month for single borrower and gross income of not more than RM10,000 per month for joint borrowers
Service/Product Offering	Guarantees 10% on a “first loss” on mortgage loans given by banks (Guarantee will be provided by Cagamas and guarantee fee will be borne by the Government of Malaysia)
Eligible Property	Housing valued between RM100k to RM400k
Max Loan Amount	100%
Lending Rate	Respective Base Lending Rates of the offering financial institution



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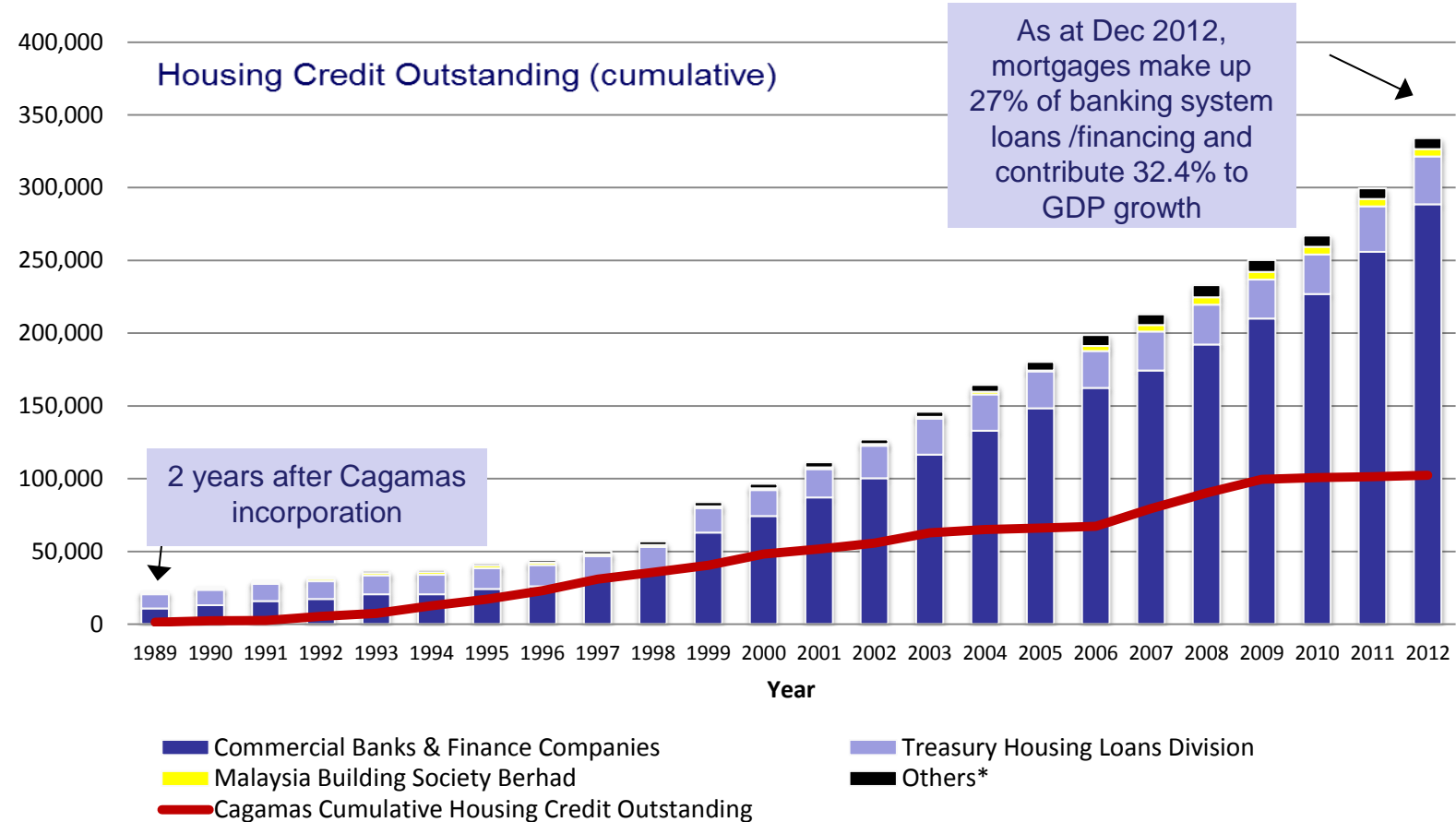
Promotion of home ownership/home accessibility and affordability in Malaysia..cont

- Promoting origination of longer tenure house financing
 - Longer tenure financing of up to 25 or even 30 years
 - Demand for houses has strengthened and house financing are more affordable
- Generating strong competition among financial institutions to grant house financing
 - Provide access to competitively priced funds, resulting in easy access to affordable house financing (particularly the low cost sector)



Promotion of home financing in Malaysia

RM Million



Source: BNM Annual Report, various years

* Others inclusive of Bank Kerjasama Rakyat Malaysia Berhad, Borneo Housing Mortgage Finance Berhad, Bank Simpanan Nasional and Sabah Credit Corporation





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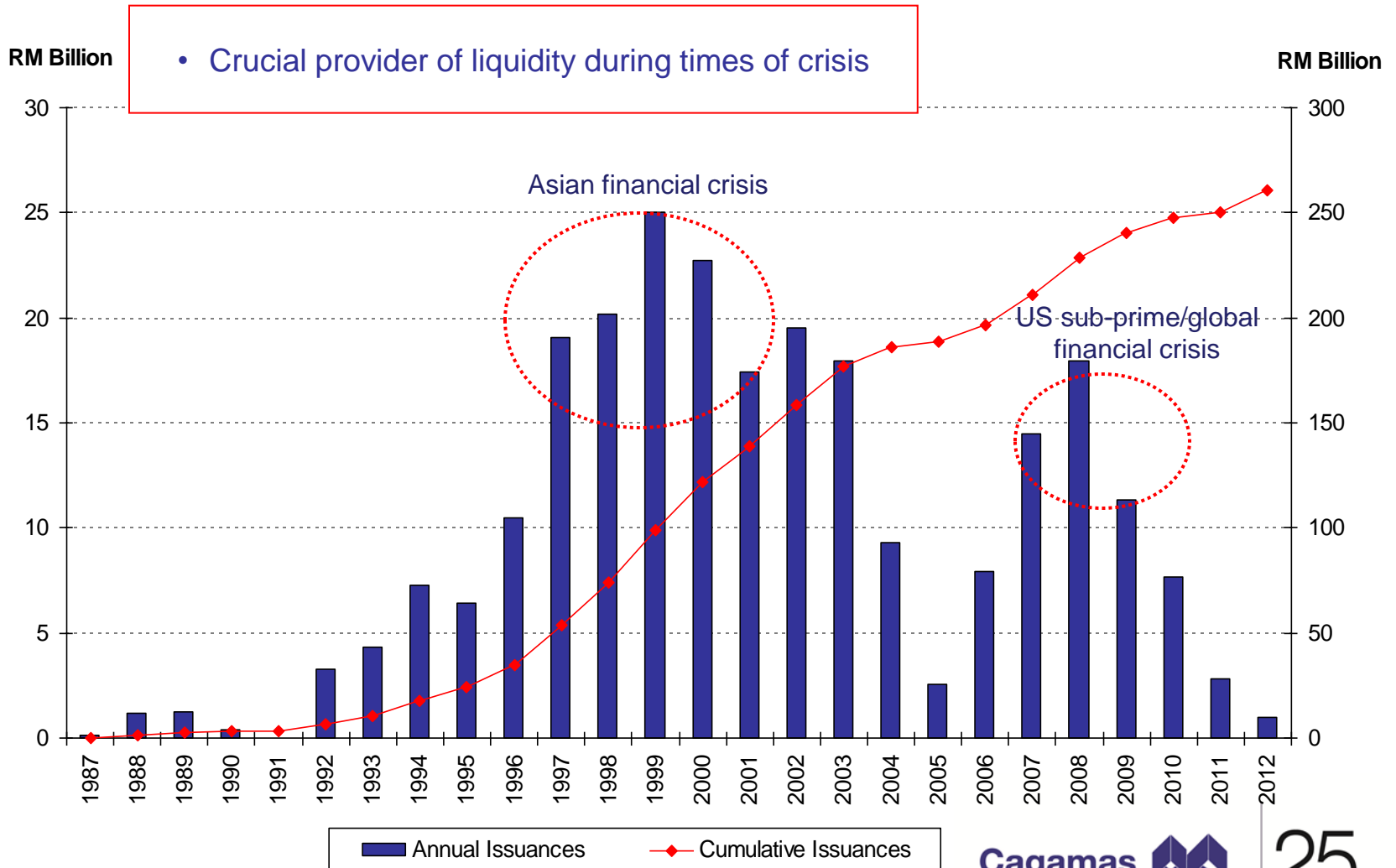
Enhance and support in the stabilization of the financial sector in Malaysia

- Provide credit and portfolio risk management solutions
 - Provide capital management solutions
 - Conduit to remove systemic risk in the financial sector
 - Conduit for best practices & setting up of standards – development of conforming financing standards
- } PWOR and MGP



Role of Cagamas

Provided liquidity of about **RM265.6 billion** to the financial sector to date*



* As at December 2012





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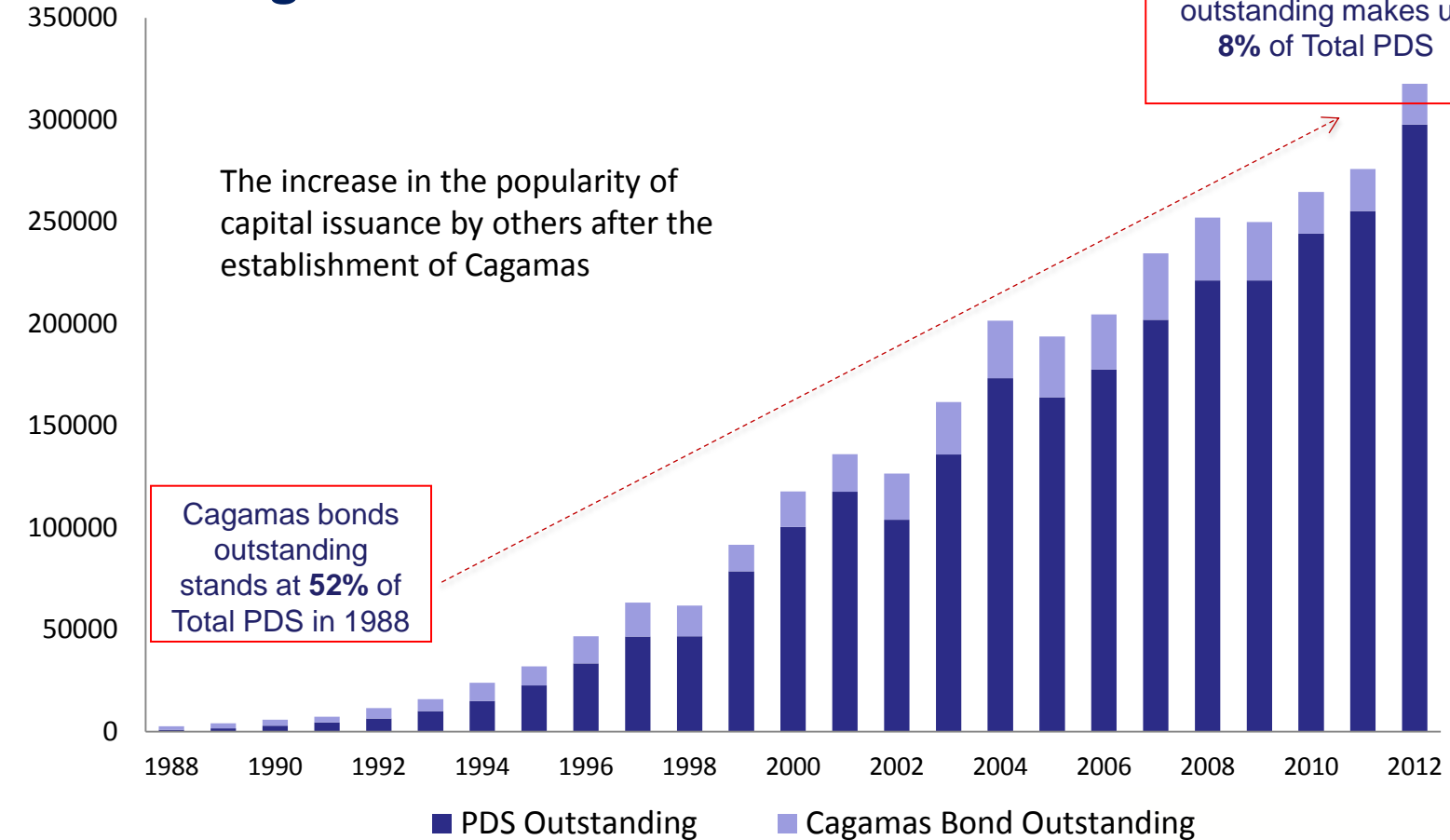
Development of the Malaysian Capital Market

- Enhance the quality of capital securities market – structuring of high investment grade instruments
 - Approx. 22% of AAA Malaysian Private Debt Securities (PDS) market
 - Approx. 67% of AAA Malaysian Asset Backed Securities (ABS) market
- Contribute to the depth and breadth of capital market – structuring of sophisticated instruments
- Significant player in the capital securities market
 - 2nd largest issuer after the Government of Malaysia
- Providing an alternative form of investment in quality private capital securities
 - Large volume of highly-rated multi-tenor Cagamas capital securities has given investors new instruments for investing their surplus funds



RM Million

Cagamas Share in Total PDS market



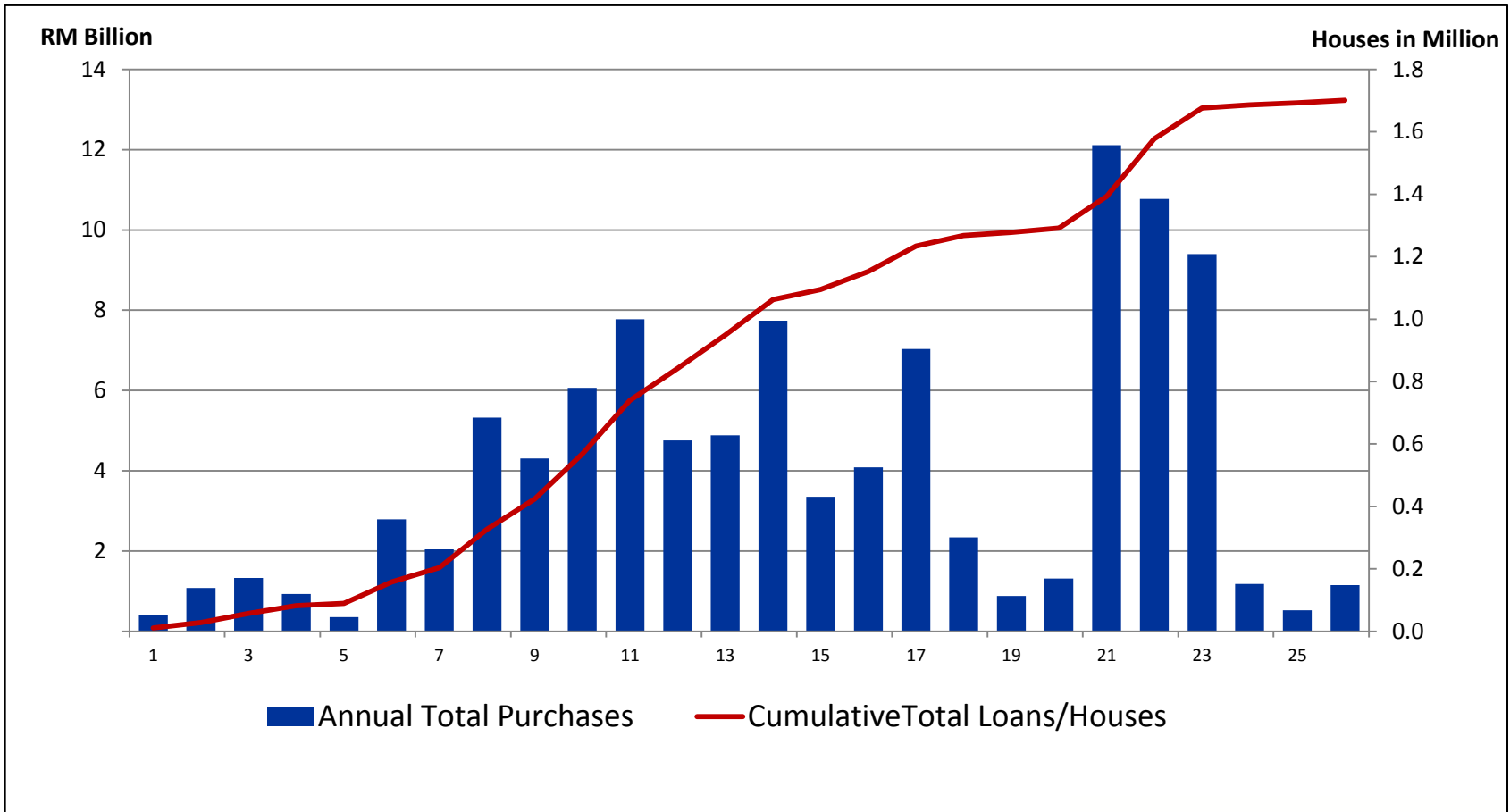
Source: BNM Annual Report, various years





Role of Cagamas

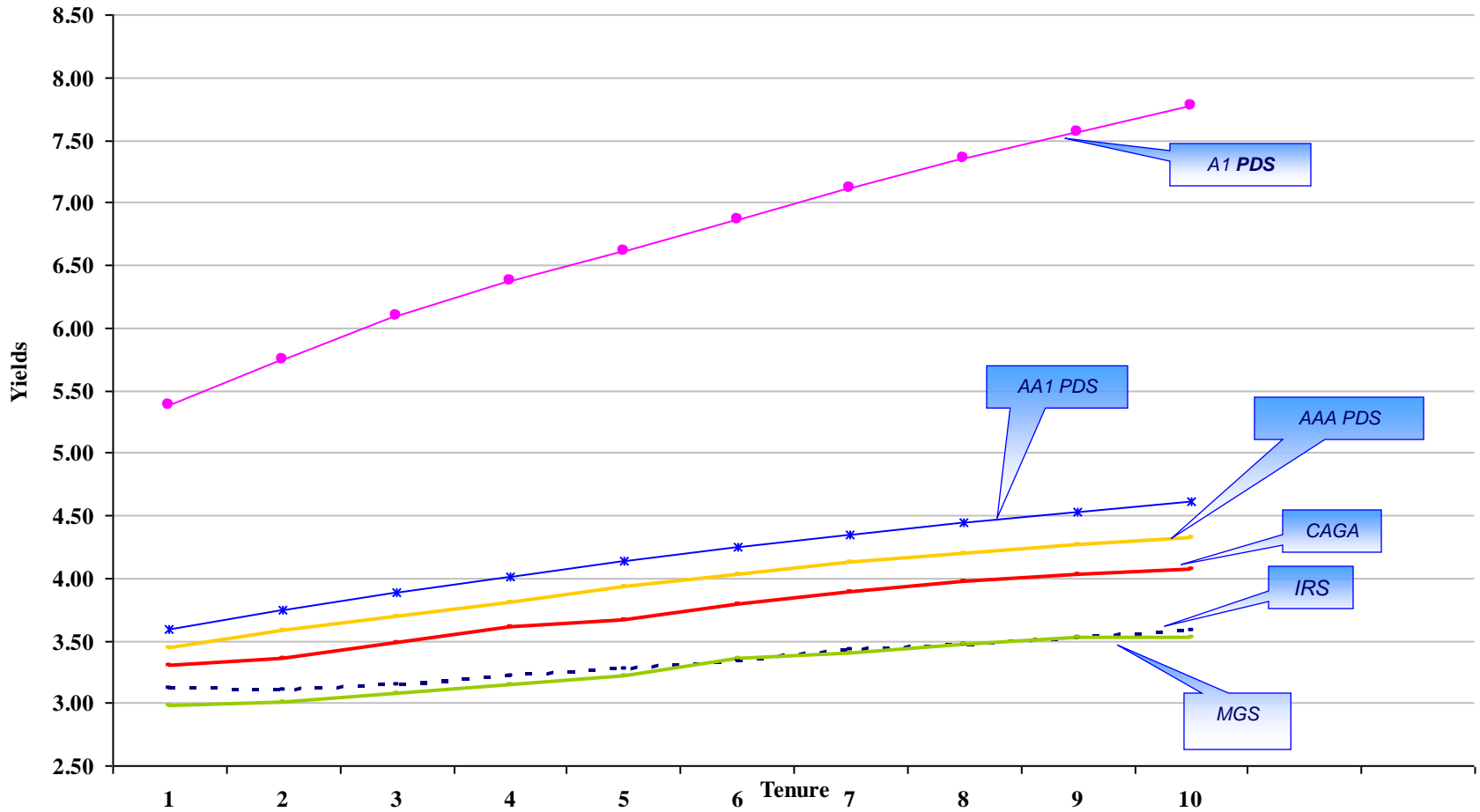
Cagamas has cumulatively refinanced housing loans in the secondary market equivalent to **RM104 billion** or around **1.7 million houses**





Role of Cagamas

Cagamas bond yield comparison against IRS, MGS , AAA , AA1 & A1 PDS





4

Development of the Islamic Financial Sector

- Enhance the quality of Islamic capital market – structuring of high investment grade sukuk
- Contribute to the depth and breadth of Islamic capital market – structuring of sophisticated instruments
- Support the promotion of Malaysia as an International Islamic Financial Centre
- Significant player in the Malaysian Islamic securities market
 - Approx. 16% of AAA Malaysian Sukuk market
 - Approx. 84% of AAA Malaysian Islamic ABS market



Our Islamic Business – Experience

- Cagamas is perhaps the **only secondary mortgage institution** in the world with a **proven** and **award winning Islamic capabilities**. Our experience includes:-

<p>Innovative & Award Winning Team</p>	<ul style="list-style-type: none"> • Developed many “first” Islamic structures of its kind utilising various Islamic concepts and principles • Islamic structures have won numerous local, regional and international awards
<p>Quality Sukuk Issuer</p>	<ul style="list-style-type: none"> • AAA-rated by both local rating agencies, RAM Ratings (RAM) and Malaysian Rating Corporation (MARC) • No default experience in our 25 years of operations
<p>Sharia Compliant Structures</p>	<ul style="list-style-type: none"> • Globally Sharia compliant structures • Legal documents in accordance to Sharia principles and best practices • Approved by the relevant Sharia Advisory Council at Bank Negara Malaysia and/or the Securities Commission
<p>Islamic Compliant Operations & Infrastructure</p>	<ul style="list-style-type: none"> • Distinct from conventional operations • Separation of funds, activities, and accounting books & records to prevent co-mingling of funds. • Islamic investments are limited to highly rated Islamic investments, primarily Government, or Government guaranteed papers • Systems and infrastructure designed to cater for Islamic products

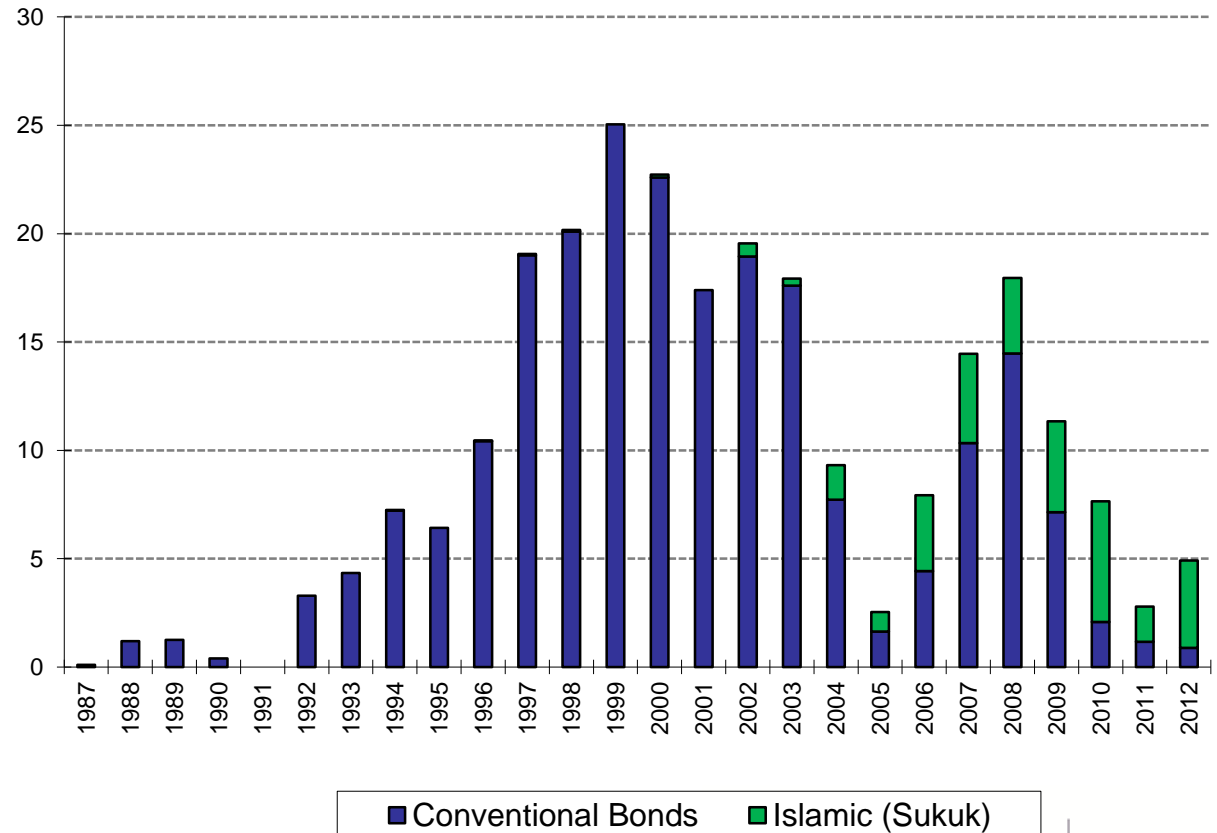


Cagamas Issuances (Sukuk & Bonds)

Year	Amount (RM Million)
1994	30
1996	30
1997	54
1998	70
2000	144
2002	610
2003	320
2004	1,600
2005	900
2006	3,500
2007	4,110
2008	3,480
2009	4,195
2010	5,570
2011	1,635
2012	4,040

Cagamas has issued RM35.3 billion or 13.3% of Sukuk since inception and the percentage was growing from year to year basis (Total Issuances RM265.6 billion).

RM Billion





Impact of setting up Cagamas

- Promoting access to longer tenure housing loans
- Generating strong competition among financial institutions to grant housing loans
- Providing liquidity to the financial sector
- Strengthening the financial sector
- Enhancing the quality and increase the breadth of the Malaysian capital market
- Providing an alternative form of investment in high quality Private Securities
- Developing the Islamic Finance and Sukuk market



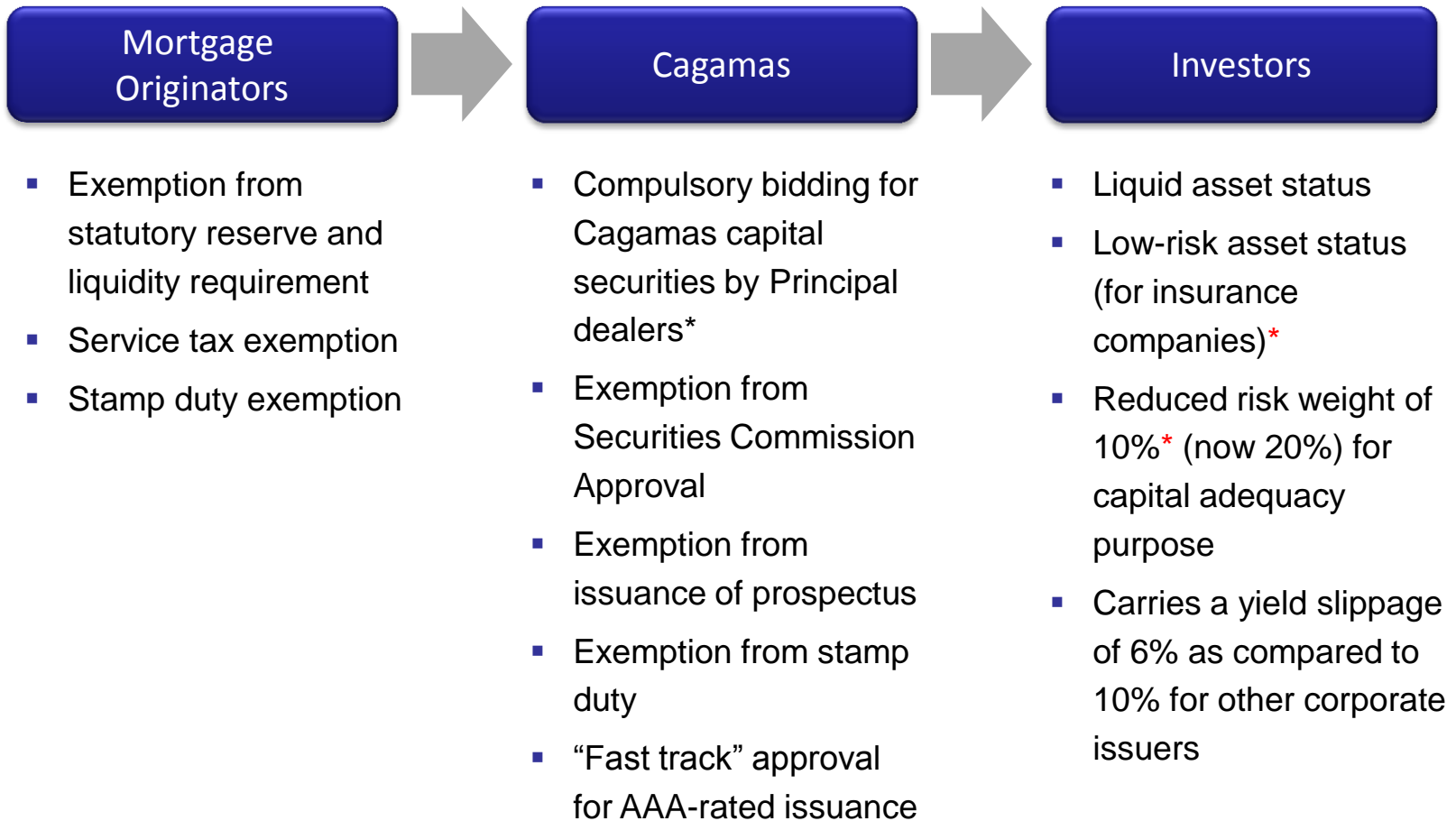
- **Solid financial standing & shareholding**
 - Profitable going concern
 - Strong shareholders equity of RM2.1 billion
 - High RWCR of over 20%
 - Strong shareholders in the form of Central Bank of Malaysia and Financial Institutions

- **Strong management team**
 - Experienced and dedicated professional team
 - Result oriented and performance driven culture
 - Robust risk management and corporate governance structure

- **Support given by regulators**
 - Implicit and explicit support given:-
 - Implicit: Through Central Bank of Malaysia's shareholding in Cagamas
 - Explicit: Through incentives by government and regulators at the initial stage



Cagamas – Supporting Measures



* No longer applicable post 4 September 2004



Awards & Accolades

Cagamas has achieved many “**firsts**” for capital market transactions in Malaysia and beyond; garnering a number of impressive awards and accolades over the past years

Transaction	Awards Won	
First residential mortgage backed securities (RM1.55 billion) transaction in Malaysia (2004)	  	<ul style="list-style-type: none"> • Best Local Currency Bond Deal of the Year • Best Local Currency Bond in Asia • Best Malaysian Ringgit Bond
First rated Islamic Home Financing Backed Sukuk Musyarakah (RM2.05 billion) transaction in the world (2005)	  	<ul style="list-style-type: none"> • Best Malaysian Deal • Best Domestic Securitisation Deal • Best Islamic Finance Deal • Islamic Finance Deal of the Year • New Islamic Benchmark Deal of the Year
First Synthetic Securitisation of SME Loans (RM600 million) transaction in the ASEAN region (2007)	   	<ul style="list-style-type: none"> • Malaysia Capital Markets Deal of the Year • Asian Deal of the Year • Best Domestic Securitisation • New Structured Finance Benchmark Deal
Largest and longest dated corporate Sukuk transaction in Malaysia (2008) (RM2.015 billion Sukuk Commodity Murabahah)	 	<ul style="list-style-type: none"> • Issuer of the Year • Most Innovative Islamic Finance Deal
Largest multi-tenured Sukuk Commodity Murabahah transaction in 2009 (RM915 million Sukuk Commodity Murabahah)	 	<ul style="list-style-type: none"> • Tawarruq Deal of the Year • Most Innovative Deal
First Sukuk al-Amanah Li al-Istithmar (RM1 billion Sukuk ALIm) transaction in the world (2010) and that are widely accepted and tradable in the Middle East	 	<ul style="list-style-type: none"> • Islamic Issuer of the Year • Sukuk Issuer of the Year • Islamic Deal of the Year • Malaysia Deal of the Year • Islamic Deal of the Year • Best Islamic Deal of the Year • Malaysian Innovation of the Year
Largest ever transferable and tradable variable rate Sukuk issuance by a corporate in the Ringgit market (2010) (RM230 million Variable Rate Sukuk Commodity Murabahah)	 	<ul style="list-style-type: none"> • Tawarruq Deal of the Year • Best Islamic Commodity-Linked Murabaha
Other Achievements		
Largest funding programme of its kind (RM60 billion CP/MTN programme) in the ASEAN region (2007)		<ul style="list-style-type: none"> • Longest programme tenure in Malaysia (40 year MTN programme)
First Sukuk Mudharabah (RM30 million) transaction in the world (1994)		<ul style="list-style-type: none"> • First Islamic security issued based on the principle of Mudharabah



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THE END