



GLOBAL ISLAMIC FINANCE FORUM (GIFF)
INTERNATIONAL ISLAMIC CAPITAL MARKET FORUM (IICMF)
19 – 20th SEPTEMBER 2012

Cagamas Berhad (157931-A)

SUKUK – The Value Proposition
Providing Liquidity to Islamic Financial Institutions

Datuk Chung Chee Leong
President/Chief Executive Officer

20 September 2012



Content

1. Promising Growth in Islamic Banking System
2. Islamic Liquidity Instruments
3. Addressing Liquidity with Cagamas' Business Model
 - The Tools
 - Business Model – Benefits & Opportunities
 - Transaction Structure – Our Experience
4. Appendix - About Cagamas



Promising growth in Islamic Banking System

Growth for Islamic Banking Deposits vs. Banking System



Growth of the Islamic deposits consistently outpaced the growth of deposits for the whole banking system.

Source : Bank Negara Malaysia

Islamic finance is increasingly becoming part of the **growth strategies** of an increasing number of global financial institutions..

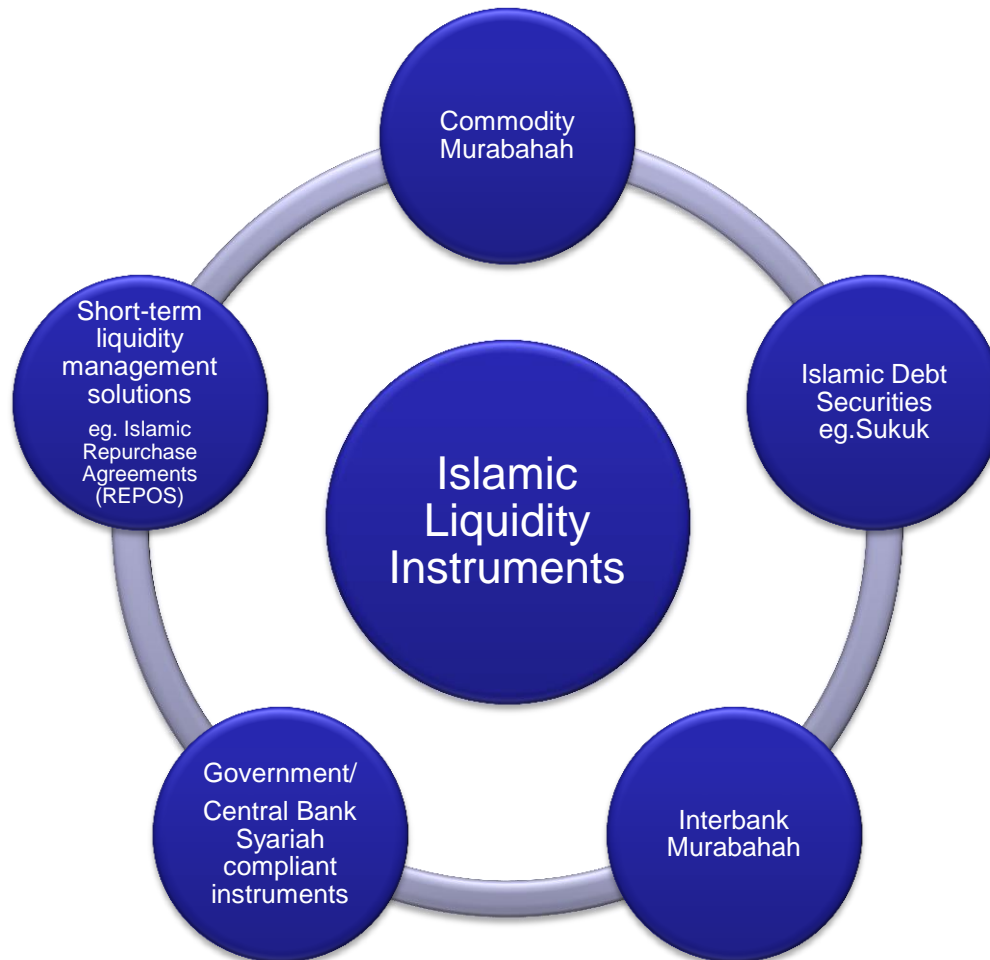
....the global Islamic finance industry **continues to experience double digit growth of 21%** with the Shariah compliant assets now breaching the **USD1 trillion** mark..¹

¹Keynote address by Tan Sri Dr Zeti Akhtar, Governor of the Central Bank of Malaysia, at the Islamic Financial Intelligence Summit (IFIS) 2011.



Islamic Liquidity Instruments

Common sources of liquidity for Islamic Financial Institutions

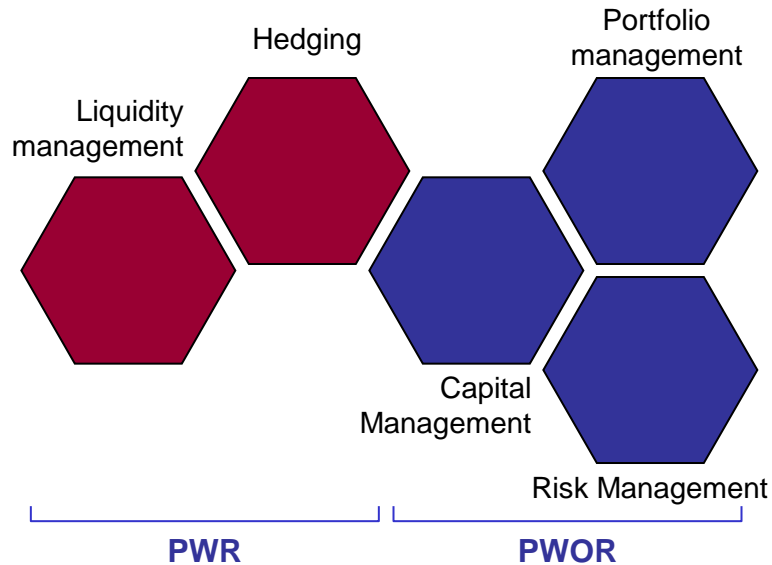


As the largest issuer of corporate debt securities in Malaysia with total Sukuk outstanding of RM13 billion, Cagamas continue to play an active role in advancing the presence and diversity of Islamic finance by introducing new and innovative Islamic products in the financial market



Addressing Liquidity with Cagamas' Business Model

The Tools



- Cagamas purchases **Islamic financing assets** and fund the purchases through the issuance of **Islamic securities**
- Financing debts are purchased either on a with recourse basis (**Purchase with Recourse**) or on a without recourse basis (**Purchase without Recourse**)

What we purchase:-

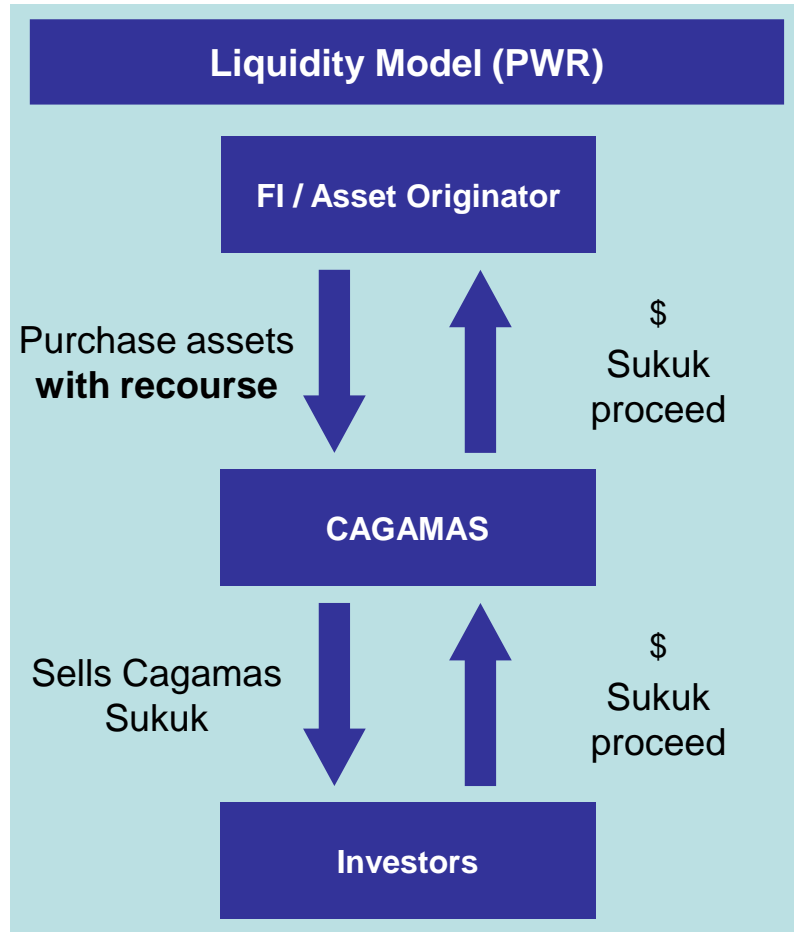
- Islamic house financing
- Islamic hire purchase/leasing
- Islamic personal financing
- Rahn financing
- Small and medium enterprise (SME) financing

What we issue:-

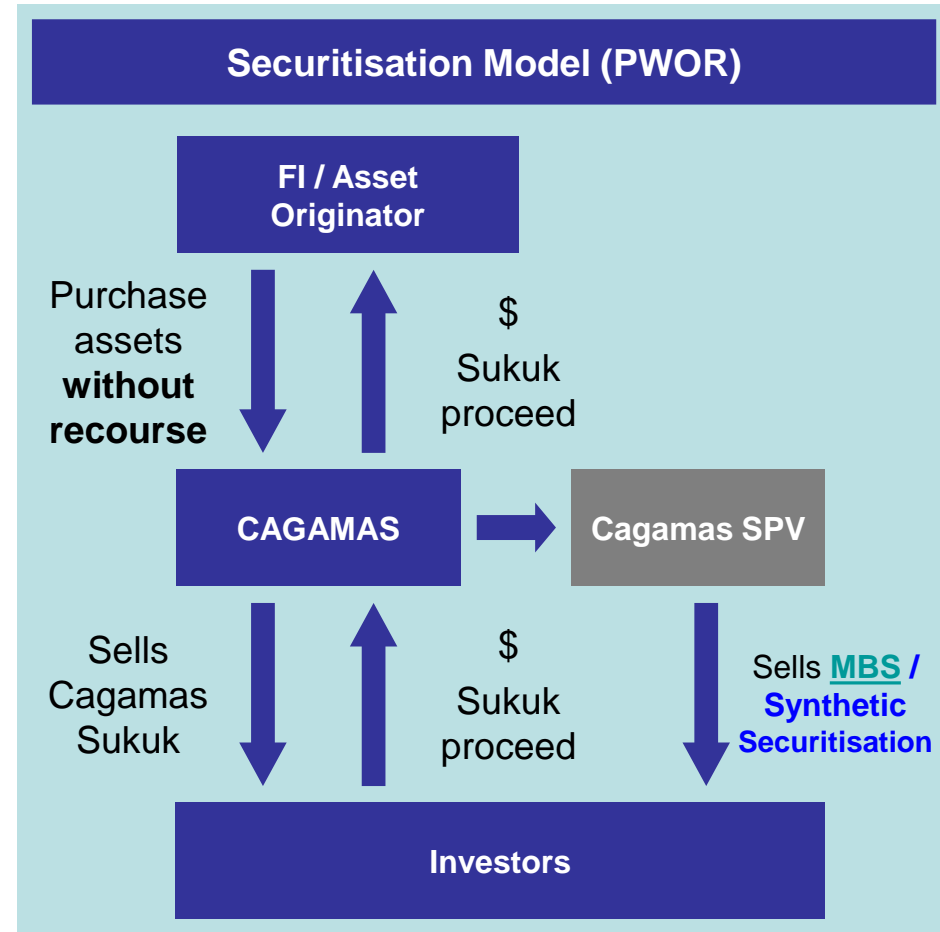
- Sukuk Mudharabah
- Bithaman Ajil Islamic Securities
- Sukuk Commodity Murabahah
- Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)
- Islamic Residential Mortgage-Backed Securities
- Sukuk Wakalah Bil Istithmar



Business Model



Provides liquidity & hedging



Provides risk and capital management



Business Model - Benefits

Liquidity Model (PWR)

- Hedge profit rate risk
- Reduce maturity mismatch
- Alternative funding from capital market
- Able to price financing products competitively
- No effect on asset growth
- Fast turnaround time (within 2 to 10 business days)
- Lower reserve requirements
- Reduce negative carry via asset swapping
- Improve Financing-to-Deposit ratio (FDR)

Securitisation Model (PWOR)

- Transfer of credit and profit rate risk
- Manage portfolio concentration risk
- Reduce maturity mismatch
- Full capital relief
- Improve ROA and RWCR
- Fast turnaround time (within 3 weeks compared to 3 to 9 months for ABS)
- Competitive pricing (no transaction cost i.e. legal, financial advisors, arrangers etc)
- Improve earning stability (sale at a premium allows locking of profits)



Business Model - Opportunities

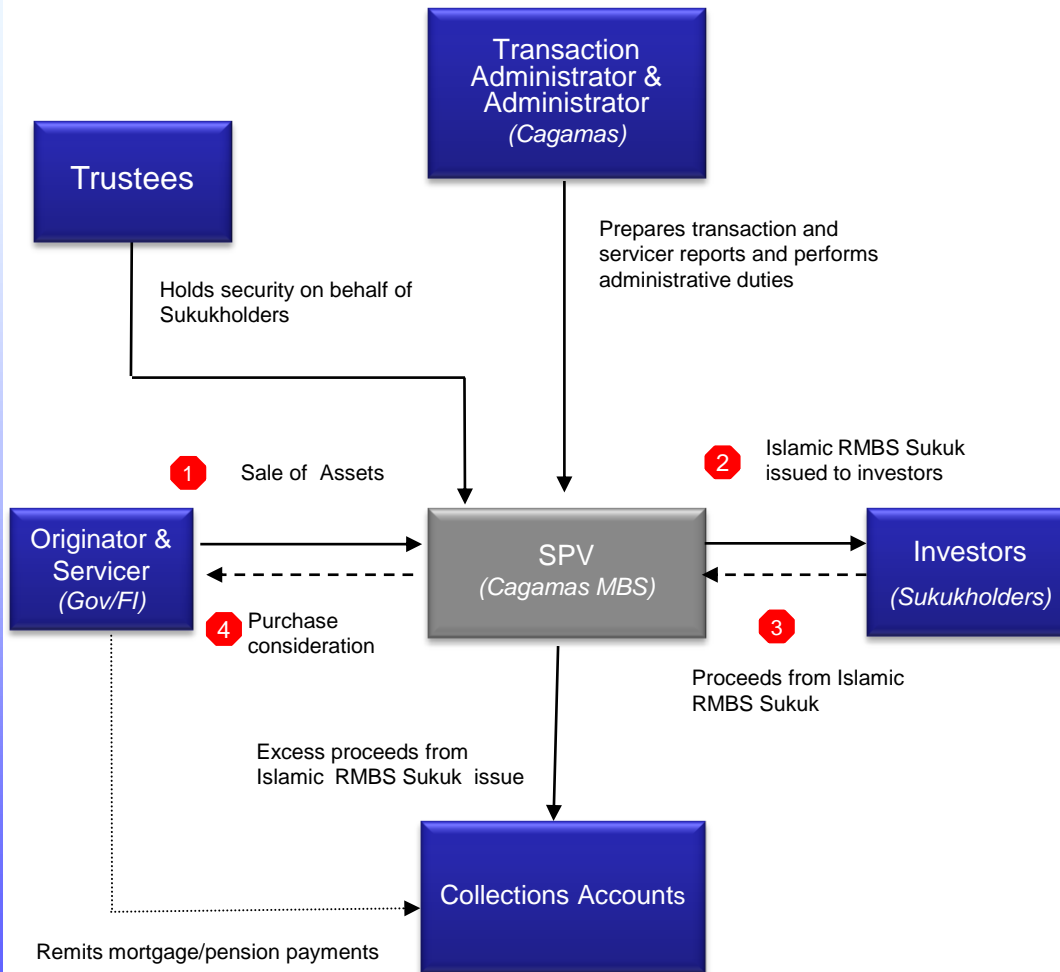
For Islamic Financial Institution

- Lower cost of funding
- Provide Liquidity - Diversified source of funding and converts illiquid financial assets into marketable debt securities
- Potential gain on sale of assets
- Improve balance sheet ratios
- Transferring risk to the capital market
 - Investors bear credit risk, prepayment risk, liquidity risk, early amortisation, etc.
- Stamp duty exemption under ABS Guidelines

For Investors

- Attractive yields as compared to other debt instruments of similar quality
- Ratings stability based on asset performance, isolated from the rating of the company
- Credit enhancement in the structure
- Cash flow from the assets securitised can be structured to meet investors' requirements.
- Structural innovations and diversified asset pools provide higher credit enhancements
- Historically lower default rates than non-ABS debt securities

Transaction Structure – Our Experience



Transaction Background

- Issues of Islamic RMBS in 2005 with total issue size of RM2.05 billion.
- Cagamas MBS (CMBS) raises purchase consideration via the issuance of Islamic RMBS Sukuk Musyarakah to onshore and offshore investor

Sukuk Musyarakah Concept

- Investors contribute the capital for the Musyarakah venture
- Venture is to purchase a portfolio of house financing (Assets)
- Investors participate in profit and loss from the venture and waive their rights to payment beyond specified threshold
- Sukuk evidence proportionate beneficial interest in the venture

Transaction Highlights

- First rated Islamic RMBS in the world in 2005. Awarded Islamic Finance Deal of the Year 2005 by Euromoney
- Highest credit rating (AAA by domestic rating agencies, RAM and MARC)
- Short execution time for repeat transactions
- Favorable regulatory treatment for investors

Role of Cagamas

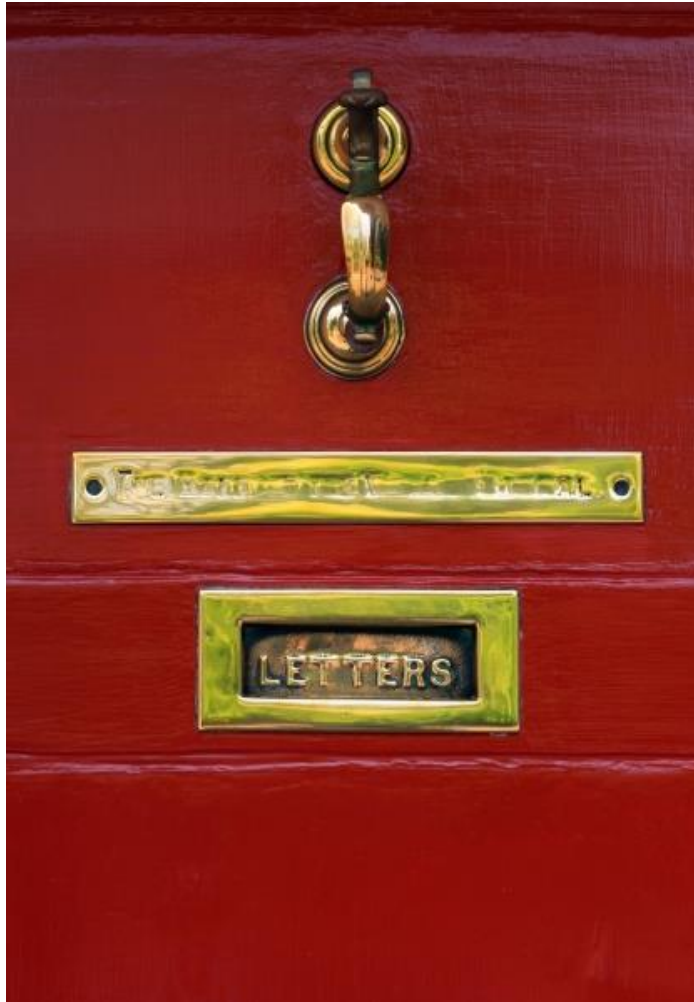
- Active role in transaction – from structuring to post issuance
- Administrator and transaction administrator – track record in administering this asset class
- Formation of the SPV – CMBS, wholly owned by Cagamas Holdings



THE END



Contact us



Cagamas Berhad

Level 32, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia

Tel: +603-2262 1800

Fax: +603-2282 8125 / +603-2282 9125

www.cagamas.com.my



Disclaimer

This presentation was prepared exclusively for the benefit and internal use of the recipient. This presentation does not carry any right of publication or disclosure to any other party. Neither this proposal nor its content may be used for any other purpose without prior written consent of Cagamas Berhad (“Cagamas”).

The information in this presentation reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of any information available from public sources.

Except as required by law, Cagamas and their officers, employees, agents and advisers do not accept any responsibility for or liability whatsoever in respect of any loss, liability, claim, damage, cost or expense arising as a consequence (whether directly or indirectly) of reliance upon any information or any statement or opinion contained in this document, nor do they make any representation or warranty (whether expressed or implied) as to the accuracy or completeness of this documents or its contents. This paper is not an offer documents and cannot give rise to any contract.



About Cagamas

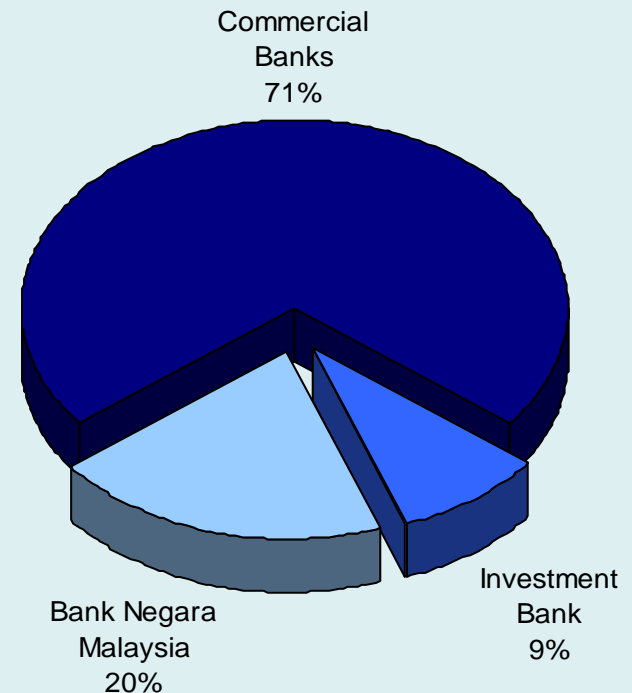


Company Background

- Established in 1986 as a result of the following market situation:-
 - Funding mismatch in financial institutions resulting in liquidity crunch
 - Financial institution's were not lending to homebuyers despite demand
 - Limited funding source in the market
 - no bond market

- 4 key objectives of Cagamas
 - Promote home ownership / home accessibility and affordability in Malaysia
 - Develop the Malaysian Capital Market
 - Enhance and support the stabilisation of the financial sector
 - Develop the Islamic Financial Sector

Shareholding Structure as at 31 December 2011





Facts & Figures

Key Financials as at 31 December 2011

- Profit before tax : RM304 million
- Asset size : RM22.7 billion
- Shareholder's funds : RM2,101 million

Bond Issuance as at 31 July 2012

- Issued RM262.2billion bonds (Sukuk: RM32 billion)
- Outstanding Unsecured Bonds of RM20 billion (Sukuk: RM10.4 billion)
- Outstanding Residential Mortgage Backed Securities (RMBS) of RM6.9 billion (Islamic RMBS: RM3.1 billion)
- 9% of Corporate Debt Securities Market (8% of Sukuk Market)
- 23% of outstanding AAA Corporate Debt Securities (17% of AAA Corporate Sukuk)

Asset Backed Securities (ABS) Issuance as at 31 July 2012

- RMBS Issued to date RM10.2 billion (Islamic RMBS issued RM4.2 billion)
- 44% of ABS (58% of Islamic ABS)
- 76% of outstanding AAA ABS (87% of AAA Islamic ABS)



Our 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>Shariah Compliant Structures</p>	<ul style="list-style-type: none"> • Globally Shariah compliant structures • Legal documents in accordance to Shariah principles and best practices • Approved by the relevant Shariah 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 & Infrastructure designed to cater for Islamic products

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 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 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 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 Deal of the Year • Malaysia Deal 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
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



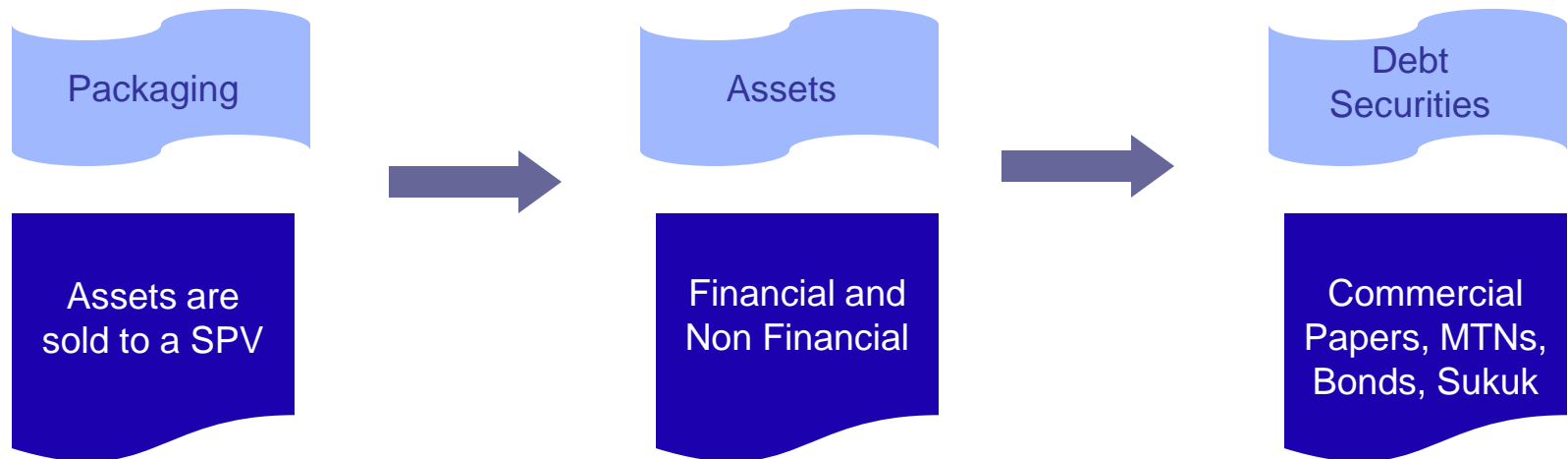
Mortgage Backed Securitisation (MBS)



Mortgage Backed Securities (MBS) - Defined

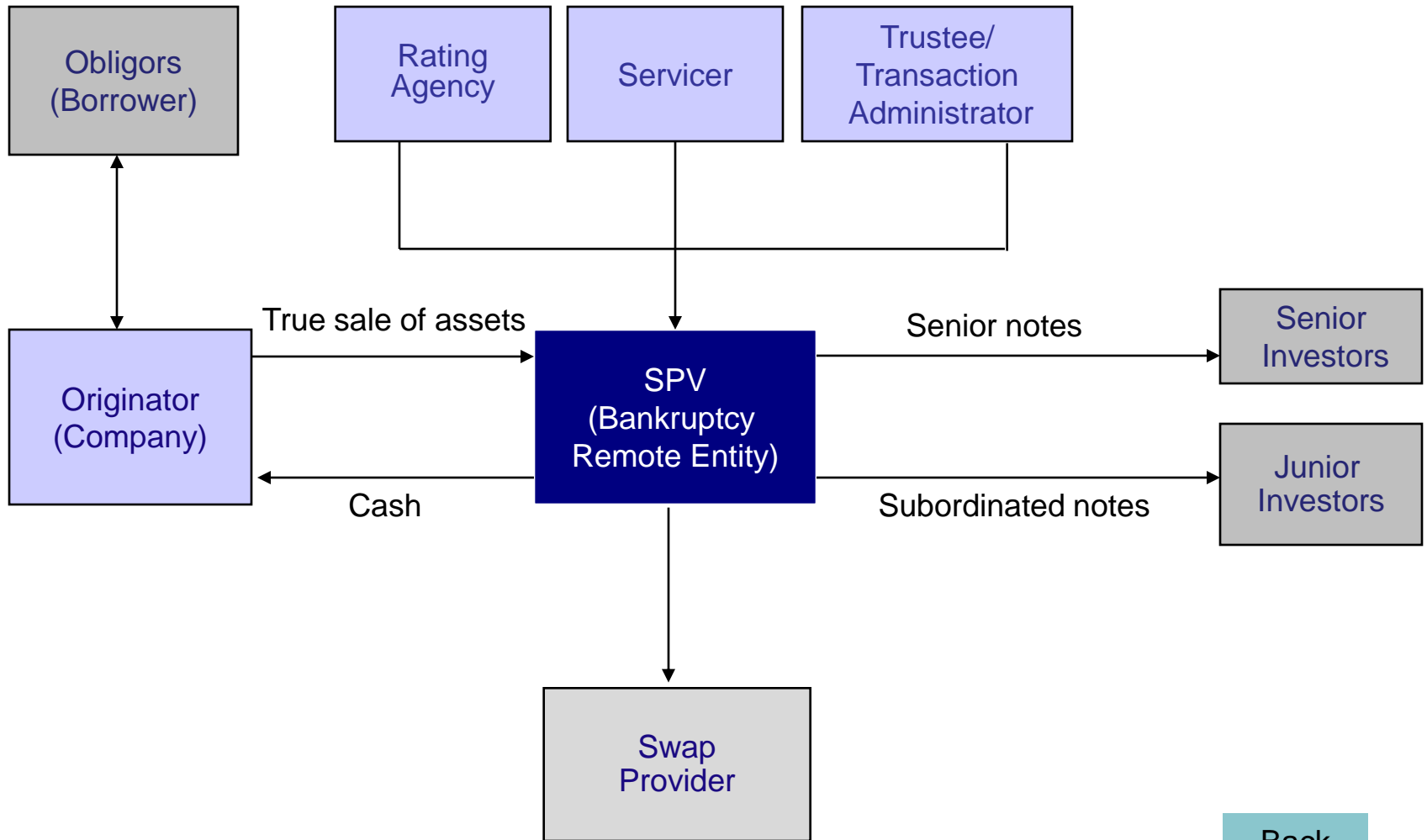
MBS is a type of asset-backed security that is secured by a mortgage or collection of mortgages and cashflows generated from the contractual obligation of the borrowers to pay on the pool of assets.

“...the process of **packaging assets** and converting them into **debt securities**.....”





Typical MBS Structure



Back