



CAGAMAS UNVEILS NEW FINANCIAL INSTRUMENT FOR BANKING SECTOR

Kuala Lumpur, April 10

Malaysia's national mortgage corporation Cagamas Berhad today unveiled its new Purchase WithOut Recourse (PWOR) scheme. Cagamas PWOR is a financial instrument developed to help the banking sector better manage their capital and credit risk.

Cagamas PWOR provides the opportunity for banks to sell their conventional and Islamic mortgages and hire purchase financing outright with no recourse for default risk. The receivables may be sold either at par or at a premium, depending on the credit quality and yield of the portfolio. There is also a post sale benefit whereby the seller will receive income in the form of a service fee from Cagamas.

With Cagamas taking over the credit risk of such receivables through the offering of Cagamas PWOR, the banks would be able to optimize their risk-weighted capital ratio and have more certainty over their income.

According to Cagamas' Chief Executive Officer Steven Choy, other than being an effective balance sheet management and risk management tool, Cagamas PWOR's principal advantages for the banks are regulatory capital relief, reduction of credit risk, converting interest income to fee income and it is an avenue for the banks to lock in profits of assets.

"Being a standardised product, Cagamas PWOR is a very efficient tool as there is no transaction cost and the turnaround time is very short, at around three weeks, compared with customised alternatives which could take up to six months."

"We believe that it is timely to launch this new Cagamas PWOR as this financial instrument is a very effective risk management tool to help banks better manage their balance sheet and capital requirements with the advent of Basel II, as well as to satisfy an increasing demand from regulators and shareholders for better risk management," says Choy.

PWOR uses risk-based pricing to determine the purchase price of the portfolio which can range from par to premium, depending on the credit quality of the loan portfolio.

With Cagamas PWOR, Choy targets to purchase RM2 billion worth of mortgage and hire purchase financing by end 2007 and to achieve 10 per cent market share in 10 years.

The launch of Cagamas PWOR is part of the company's long-term strategy to reinforce its position as the leader in the secondary market for mortgage and hire purchase financing, as well as its role in deepening the development of Malaysia's bond market.

Alliance Bank, CIMB Bank, CitiBank and Standard Chartered Bank expressed their support for Cagamas PWOR by signing up for the inaugural PWOR partner programme.

Officiating the launch of Cagamas PWOR and witnessing the signing was Dato' Ooi Sang Kuang, the company's Chairman and Deputy Governor of Bank Negara Malaysia.

About Cagamas

Cagamas Berhad, the national mortgage corporation, was established in 1986 and began operations in 1987 to promote the secondary mortgage market in Malaysia. Cagamas has through the years evolved and diversified its business model from that of a national mortgage corporation seeking to aid Malaysians with affordable housing to becoming a leader in the secondary market and securitisation. It raises funds by issuing debt securities and uses the funds to finance purchase of housing loans and debts from financial institutions, selected corporations and the Government. The provision of liquidity at a reasonable cost to the primary lenders of housing loans encourages further financing of houses at an affordable cost.

Through the years, Cagamas' product range has expanded significantly to include housing loans, hire-purchase, credit card receivables and utility receivables. Today, the Company is the second largest issuer of fixed and floating rate bonds and notes which are rated AAA by Rating Agency Malaysia (RAM) and Malaysian Rating Corporation (MARC), reflecting its strong financial standing.

Cagamas Berhad
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