



National Mortgage Corporation of Malaysia

Sustainability Bond/Sukuk Framework

28 March 2023





Housing the Nation

1. Background

Cagamas Berhad (Cagamas), the National Mortgage Corporation of Malaysia was established in 1986 by Bank Negara Malaysia to support the national agenda of increasing home ownership and affordability through provision of competitively priced liquidity in the secondary mortgage market in Malaysia.

Cagamas issues highly-rated corporate bonds/sukuk to mainly finance the purchase of eligible housing loans/financing from financial institutions (FIs) and non-FIs. The provision of liquidity at a competitive cost to the primary lenders of mortgages encourage further expansion of financing for houses at an affordable cost and thus increase home ownership by Malaysian.

At present, Cagamas is assigned with the highest domestic rating of AAA by the local rating agencies, namely RAM Rating Services Berhad (“RAM Ratings”) and Malaysian Rating Corporation Berhad (“MARC”), as well as a global rating of A3 by Moody’s Investors Service (“Moody’s”), at par with Malaysia’s sovereign rating. Cagamas is highly committed to maintain its highest rating at all times to uphold its core mission in promoting home ownership in Malaysia. Since its inception in 1986, Cagamas has cumulatively refinanced housing loans and house financing in the secondary market amounting to RM158 billion, equivalent to 2 million houses in aggregate by end 2019.

Cagamas recognises its responsibilities towards the environment and the nation as affordable housing vis-à-vis sustainable development has always been the Company’s core priority. Hence, Cagamas Sustainability Bond/Sukuk Framework (“Cagamas Sustainability Framework”) is a step towards reaffirming and deepening Cagamas’ mission, and raising awareness among the community about the importance of sustainable development i.e. the development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

This Framework is also a step to support and promote the 17 Sustainable Development Goals (**SDGs**) established by the United Nations in September 2015 as well as Government's initiatives under the 11th Malaysia Plan namely the Strategic Thrust 2: "Improving Wellbeing for All" and Strategic Thrust 4: "Pursuing Green Growth for Sustainability and Resilience". In addition, issuance of sustainability bonds/sukuk under the Framework will also provide an alternative investment option to Cagamas' investors to meet their sustainable and responsible investment objective.

The Framework is aligned with the following:

- (i) ICMA's 2018 Green Bond Principles, 2018 Social Bond Principles and 2018 Sustainability Bond Guidelines;
- (ii) The ASEAN Green Bond Standards updated in October 2018, ASEAN Social Bond Standards dated October 2018 and ASEAN Sustainability Bond Standards dated October 2018 endorsed by the ASEAN Capital Markets Forum (ACMF)¹; and
- (iii) The Sustainable and Responsible Investment Sukuk framework issued by the Securities Commission Malaysia.²

2. Framework Overview

Cagamas Sustainability Framework is presented through the following key pillars:

- (i) Use of Proceeds;
- (ii) Process for Project Evaluation and Selection;
- (iii) Management of Proceeds;
- (iv) Reporting; and
- (v) External Reviews.




¹ Chapter 8 of Part 3 of Section B of the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework issued by Securities Commission Malaysia




² Chapter 7 of Part 3 of Section B of the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework issued by Securities Commission Malaysia

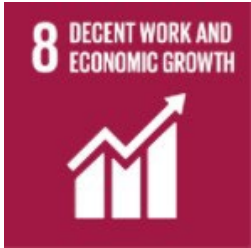
2.1 Use of Proceeds

The cornerstone of a sustainability bond/sukuk is the use of proceeds. The proceeds of any Cagamas' sustainability bonds/sukuk ("Sustainability Bonds/Sukuk") will be used to purchase loans/financing/assets that meet any of the following criteria:

Table 1: Eligible Loans/Financing Categories

Loans/Financing/ Assets related to	Description /Examples	SDGs Mapping
Renewable Energy	<p>Operation and maintenance of renewable energy plant</p> <p>Generation and transmission of energy from renewable energy sources.</p> <p>Renewable energy sources include small scale Hydro (not more than 30 megawatts), Solar, Fuel Cell, Wind, Kinetic, Biomass and combustible waste.</p>	 <ul style="list-style-type: none"> • 7.2, 7a
Energy Efficiency	<p>Development and production of products or technologies that reduce industrial energy consumption, such as improved chillers, improved lighting technology and enhanced battery capacity.</p> <p>Improved efficiency in the delivery of bulk energy services such as district heating/cooling systems, smart grids, energy recovery technology, and the storage, transmission and distribution of energy that results in reduced energy losses.</p>	 <ul style="list-style-type: none"> • 7.3, 7a
Green Buildings	<p>Green buildings mean commercial or residential buildings that meet the widely accepted green building standards locally or internationally with at least any of the following:</p> <ul style="list-style-type: none"> (i) LEED¹ certification; (ii) BREEAM² certification; (iii) Green Building Index (GBI)³; (iv) GreenRE⁴; or (v) Any other standards/certificates that are widely accepted and recognised locally or internationally. 	 <ul style="list-style-type: none"> • 11c

	<p>¹ Leadership in Energy and Environmental Design (LEED) Certification developed by the United States Green Building Council.</p> <p>² Building Research Establishment Environmental Assessment Method (BREEAM) developed by the Building Research Establishment based in England, UK.</p> <p>³ Green Building Index (GBI) developed by Malaysian Institute of Architects and Association of Consulting Engineers Malaysia.</p> <p>⁴ GreenRE was developed by the Real Estate and Housing Development Association of Malaysia (REHDA).</p>	
<p>Low Carbon and Low Emission Transportation</p>	<p>Development, manufacture and/or distribution of technologies and equipment to increase the sustainability (through improved energy/fuel efficiency or switching to electricity) of auto, truck, train, marine and aerospace transportation.</p> <p>Development and operation of sustainable public/mass transportation systems and/or of equipment for such systems (including most rail and Bus Rapid Transit that meets the BRT standard).</p>	 <ul style="list-style-type: none"> • 11.2
<p>Sustainable Water and Wastewater Management</p>	<p>Water collection, treatment, recycling, reuse, technologies and related infrastructure. Examples include water pipes and collection facilities to collect water/rainwater, dams and treatment plant facilities.</p>	 <ul style="list-style-type: none"> • 6.1,6.2,6.3,6.4
<p>Affordable Housing</p>	<p>Loans/financing/assets in relation to</p> <p>(i) Any of the following government supported schemes that promote home affordability:</p> <ul style="list-style-type: none"> (a) Skim Rumah Pertamaku; (b) Skim Perumahan Belia; or (c) Such other government supported schemes as defined by the Federal or any State Government from time to time. <p>(ii) Any of the following affordable housing projects:</p> <ul style="list-style-type: none"> (a) Skim Perumahan Rakyat 1Malaysia (PR1MA) (b) Skim Perumahan Mampu Milik Swasta (MyHome) 	 <ul style="list-style-type: none"> • 11.1

	<p>(c) Perumahan Penjawat Awam 1Malaysia (PPA1M)</p> <p>(d) Program Perumahan Rakyat (PPR)</p> <p>(e) Rumah Mesra Rakyat 1Malaysia (RMR1M)</p> <p>(f) Rumah Mampu Milik Wilayah Persekutuan (RUMAWIP)</p> <p>(g) Rumah Selangorku</p> <p>(h) Rumah Idaman Rakyat (RIR) or</p> <p>(i) Such other affordable housing projects as defined by the Federal or any State Government from time to time</p> <p>(iii) “Affordable housing” as defined by the Federal or any State Government or other relevant entity from time to time, OR</p> <p>(iv) Any property where the purchase price is not more than the Property Price Matrix for Affordable Housing as tabulated in Appendix 1.</p>	
<p>Employment Generation</p>	<p>Loans/financing/assets related to SME* sectors (SMEs)</p> <p><i>*A business can qualify as an SME if it meets either one of the two specified criteria, namely sales turnover or full-time employees, whichever is lower:</i></p> <ul style="list-style-type: none"> • <i>For the manufacturing sector, SMEs are defined as firms with sales turnover not exceeding RM50 million OR the number of full-time employees not exceeding 200.</i> • <i>For the services and other sectors, SMEs are defined as firms with sales turnover not exceeding RM20 million OR number of full-time employees not exceeding 75.</i> <p><i>Based on the Definition of Small and Medium Enterprises (SMEs) issued by Bank Negara Malaysia.</i></p>	 <ul style="list-style-type: none"> • 8.3

- All the eligible loans/financing/assets must be supported by supporting documents/confirmations provided by the FI/non-FIs to Business Units as evidence for the loans/financing/assets eligibility.

- Cagamas purchases loans/financing through the Company's Purchase With Recourse ("PWR") and Purchase Without Recourse ("PWOR") schemes. Both the PWR and PWOR schemes can be used to finance housing loans, Islamic house financings, hire purchase and Islamic hire purchase and leasing receivables, while only the PWR scheme can be used to finance industrial property loans and financings, hire purchase/leasing, personal loans and financings, Rahn (collateral) receivables, SME loans and financings and infrastructure development loans and financings.
- For the purchase of other types of loans/financing/assets, the Board's approval is required.

2.1.1 Exclusion Criteria

For the avoidance of doubt, in any case, loans/financing/assets related to fossil fuel, nuclear, weapon, alcohol, tobacco, child labour and gambling/adult entertainment are excluded.

2.2 Process for Project Evaluation and Selection

- 2.2.1. A set of Eligible Criteria ("EC") including those as set out in **Table 1** will be given to FIs/Non-FIs ("The Approved Seller").
- 2.2.2. The Approved Seller will evaluate and provide the listing of Eligible Loans/Financing/Assets that complies with the EC. The Approved Seller is obliged to ensure that the loans/financing/assets sold met Cagamas' EC at all times as stipulated under the Warranties and Covenants in the Master Sale & Purchase Agreement.
- 2.2.3. Recommendation will be made for approval of the ALCO Committee to issue Sustainability Bonds/Sukuk to purchase the identified Eligible Loans/Financing/Assets. The recommendation will be made after taking into consideration the following:
 - a) Adherence to the proposed Eligible Loans/Financing/Assets against Cagamas Sustainability Bond/Sukuk Framework and/or other relevant available standards and benchmarks; and

- b) Commitment by the Approved Seller in the adoption/promotion of any environmental, social and governance standards or recognised best practices in its business operations and strategy in relation to the management of material environmental or social risk associated with the identified Loans/Financing/Assets.

2.2.4. The ALCO Committee is chaired by the Chief Executive Officer (CEO) of Cagamas and comprises the following:

- (i) President/Chief Executive Officer (CEO) – Chairman
- (ii) Senior Vice President (SVP), Strategy & Business
- (iii) SVP, Technology & Operations
- (iv) SVP, Finance
- (v) SVP, Treasury & Markets
- (vi) SVP, Risk Management & Compliance

2.3 Management of Proceeds

2.3.1. Proceeds of the Sustainability Bonds/Sukuk will be fully utilised to purchase similar amount of Eligible Loans/Financing/Assets immediately at the point of issuance.

2.3.2. The portfolio of Eligible Loans/Financing/Assets purchased at inception will be maintained and monitored via the Company's internal loan administration system by Cagamas' Operation Department.

2.3.3. During the life of the Sustainability Bonds/Sukuk, if the designated loans/financing/assets cease to fulfil the EC, Cagamas will use its best efforts to ensure replacement with loans/financing/assets that comply with the EC as soon as reasonably practicable.

2.4 Reporting

2.4.1. Cagamas will publish an annual sustainability bonds/sukuk progress report ("Annual Sustainability Progress Report"), which will provide information on allocation and impacts throughout the tenure of Sustainability Bonds/Sukuk. The Annual Sustainability Progress Report will be updated on a timely basis in the case of material development.

(i) Allocation Reporting

Information will be provided on the amount that is equal to the net proceeds of the Sustainability Bonds/Sukuk issued including:

- (a) Aggregate amount allocated to the various Eligible Loans/Financing/Assets Categories
- (b) Remaining balance of funds which have not yet been allocated
- (c) Examples of Eligible Loans/Financing/Assets (subject to confidentiality disclosures)

(ii) Impact Reporting

Where possible, Cagamas will report on the environmental and social (where relevant) impacts resulting from the Eligible Loans/Financing/Assets. Cagamas may select alternative quantitative or qualitative indicators to remain relevant to the selected Eligible loans/financing/assets. Subject to the nature of Eligible Loans/Financing/Assets, confidentiality and availability of information, Cagamas endeavours to include, but not limited to, the following Impact Indicators:

Table 2: Indicative Impact Reporting Criteria

Eligible Loans/ Financing/Assets Categories	Indicative Reporting Criteria
Renewable Energy	<ul style="list-style-type: none"> • KWh of power generated from renewable energy • Tonnes of carbon emissions avoided • Installed capacity (MW) • Number and location of renewable energy facilities
Energy Efficiency	<ul style="list-style-type: none"> • KWh of energy saved per year • Percentage energy efficiency achieved
Green Buildings	<ul style="list-style-type: none"> • Energy consumption disclosed by absolute consumption and intensity (KWh and KWh/m²) • Calculated carbon footprint disclosed by absolute emissions and intensity (tonnes and tonnes/m²) • List of eligible buildings that received third party verified green building certification

Low Carbon and Low Emission Transportation	<ul style="list-style-type: none"> • Tonnes of CO₂ (or other GHG) avoided • Km of tracks built • No. of passenger • Number of electric/hybrid/low emission vehicles provided
Sustainable Water and Wastewater Management	<ul style="list-style-type: none"> • Amount of water saved (m³) • Amount of waste water treated(m³) • Water withdrawals or treatment capacity (m³ per day)
Affordable Housing	<ul style="list-style-type: none"> • Number of houses/household/residents
Employment Generation	<ul style="list-style-type: none"> • Number of SMEs financed • Type of SME • Number of jobs created

2.5 External Reviews

- 2.5.1. Cagamas has obtained a second party opinion from an appropriate provider to confirm the validity of Cagamas Sustainability Framework. The second party opinion will also be published on Cagamas website at www.cagamas.com.my.
- 2.5.2. For any Sustainability Bonds/Sukuk issuance under Cagamas Sustainability Framework, we will engage an appropriate external assurance provider to independently confirm the Annual Sustainability Progress Report and opine on its conformity with the Cagamas Sustainability Framework.
- 2.5.3. The Annual Sustainability Progress Report and related assurance report will be made available to the public in Cagamas website at www.cagamas.com.my and the reporting cycle will be in conjunction with the Company's annual report.

3. Financial Consideration

Apart from the elements on the Use of Proceeds described above, sustainability bonds/sukuk issued under this Framework will have the same financial characteristics as any other senior unsecured debt securities issued by Cagamas and rank pari passu amongst itself. To manage liquidity risk, Cagamas issues debt securities that match as closely as possible the corresponding cash flows and maturity profiles of the loans/financing/assets.

4. Potential Evolutions

As the sustainability bonds/sukuk market is still in an early stage and is expected to evolve in the coming years, Cagamas will continuously enhance and improve its Framework and publish any refinements as a supplement to the Framework in Cagamas' website.

Appendix 1: Property Price¹ Matrix for Affordable Housing using Housing Cost Burden

YEAR		Malaysia	Kuala Lumpur	Putrajaya	Selangor	Labuan	Johor	Melaka	Pulau Pinang	Terengganu	Negeri Sembilan	Perlis	Sarawak	Sabah	Perak	Pahang	Kedah	Kelantan
From	To																	
2020	2020	281,000	490,000	525,000	393,000	330,000	307,000	293,000	295,000	258,000	241,000	218,000	206,000	203,000	217,000	206,000	162,000	
2019	2019	316,000	568,000	538,000	442,000	362,000	346,000	326,000	332,000	299,000	270,000	248,000	245,000	228,000	230,000	239,000	233,000	192,000
2016	2018	282,000	489,000	446,000	389,000	319,000	305,000	301,000	291,000	253,000	247,000	226,000	224,000	221,000	216,000	214,000	205,000	166,000
2014	2015	247,000	411,000	405,000	335,000	306,000	280,000	271,000	253,000	204,000	222,000	189,000	204,000	202,000	186,000	183,000	186,000	146,000
2012	2013	195,000	315,000	349,000	288,000	273,000	197,000	211,000	218,000	163,000	193,000	129,000	164,000	154,000	144,000	165,000	142,000	123,000
2009	2011	153,000	238,000	294,000	232,000	188,000	159,000	162,000	172,000	113,000	146,000	99,000	129,000	111,000	113,000	134,000	106,000	92,000
2007	2008	138,000	199,000	231,000	218,000	150,000	147,000	146,000	156,000	97,000	138,000	94,000	121,000	64,000	103,000	120,000	95,000	81,000
2004	2006	119,000	180,000	na	193,000	na	125,000	124,000	143,000	73,000	123,000	79,000	97,000	87,000	93,000	96,000	87,000	68,000
2002	2003	110,000	181,000	na	169,000	na	119,000	111,000	139,000	72,000	112,000	77,000	92,000	85,000	87,000	77,000	78,000	62,000
1999	2001	92,000	152,000	na	148,000	na	108,000	92,000	125,000	62,000	96,000	59,000	90,000	68,000	73,000	65,000	66,000	51,000
1997	1998	93,000	166,000	na	154,000	na	111,000	97,000	126,000	55,000	93,000	60,000	81,000	75,000	82,000	68,000	63,000	47,000
1995	1996	74,000	125,000	na	122,000	na	87,000	75,000	91,000	41,000	73,000	48,000	70,000	61,000	59,000	61,000	53,000	43,000

Note:

(1) Derive from Median Monthly Household Income and 35-year home financing rate of 4.50%.

(2) Based on the Housing Cost Burden (HCB) approach, in which a house is affordable if housing costs are less than 30% of monthly household income.

Appendix 2: Version History

Version	Date	Summary of Key Changes
1.0	17 January 2019	
2.0	5 December 2019	Inclusion of Property Price Matrix for Affordable Housing
3.0	18 June 2020	<ul style="list-style-type: none"> Inclusion of 2.2.3 to align with Securities Commissions' Sustainable and Responsible Investment (SRI) Sukuk framework updated in November 2019. Inclusion of definition for Small Medium Enterprise (SME)
4.0	28 March 2023	Updated Property Price Matrix for Affordable Housing for Year 2020

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