

# BUSINESS REVIEW

## CAGAMAS HOLDINGS BERHAD

Incorporated in 2007, Cagamas Holdings Berhad is the holding company of Cagamas Berhad (“Cagamas”), Cagamas SRP Berhad, Cagamas MBS Berhad, Cagamas SME Berhad, BNM Sukuk Berhad and Cagamas MGP Berhad (collectively as “Group”). Its wholly-owned subsidiary, Cagamas is Malaysia’s National Mortgage Corporation and the main operating entity of the Group. Cagamas plays an important role in the Malaysian capital markets where its primary function is to promote the broader spread of homeownership and growth of the secondary mortgage market as well as contributing towards nation development.

### Cagamas Berhad

Cagamas was incorporated in 1986 by Bank Negara Malaysia with the primary objective of increasing homeownership and promoting the development of the country’s capital markets. By issuing debt securities in the capital market to purchase residential mortgages, Cagamas creates a secondary market for mortgages, provides liquidity to the financial system and being one of the largest domestic issuers of corporate bonds and sukuk, contributes to the development of domestic capital market. In addition, Cagamas Global P.L.C and Cagamas Global Sukuk Berhad are subsidiaries established under Cagamas for the purpose of issuing foreign currency bonds and sukuk, with issuances by both entities being guaranteed by Cagamas.

Through the issuance of conventional and Islamic securities, Cagamas funds the purchase of residential mortgages through its Purchase with Recourse (“PWR”) and Purchase without Recourse (“PWOR”) schemes. Under the PWR scheme, Cagamas provides liquidity and takes on the credit risk of selling institutions against an undertaking to replace defaulted loans and financing, whilst under the PWOR scheme, Cagamas absorbs all the credit risk of the loans and financing acquired. Based on this business model, Cagamas is able to provide liquidity and capital management solutions to selling institutions at a competitive cost, thus encouraging the origination of additional housing loans and financing to new applicants at an affordable cost.

To fund its purchases, Cagamas taps into the capital market through the issuance of corporate bonds and sukuk in the form of fixed and floating rate bonds, discounted notes and sukuk. To manage liquidity risk, Cagamas issues corporate bonds and sukuk that are closely matched against cashflows and maturity

profiles of its portfolio of purchased loans and financing. All corporate bonds and sukuk issued by Cagamas are unsecured, and rank pari passu among themselves.

### Cagamas SRP Berhad

As part of the Government efforts aimed at assisting first time house buyers, Cagamas SRP Berhad (“CSR”) was established in 2011 with the objective of providing mortgage guarantees to the primary lenders of house financing. Through two schemes namely the Skim Rumah Pertamaku (“My First Home Scheme [SRP]”) and Skim Perumahan Belia (“Youth Housing Scheme [SPB]”), qualifying house buyers can obtain up to 110% (for SRP) and 100% (for SPB) financing from participating banks, enabling them to own a home without paying a down payment.

In addition, CSR offers mortgage guarantee as a “first loss” protection on the residential mortgage portfolio of the Financial Institutions (“FIs”). The guarantee reduces the credit risk on their mortgage loan/financing portfolio, whilst improving their Total Capital Ratio.

### Cagamas MBS Berhad

Cagamas MBS Berhad is a special purpose vehicle set-up in 2004 to facilitate asset-backed securitisation transactions. Its main function is to purchase mortgage assets and Islamic home financing assets from the Government of Malaysia and the issuance of Residential Mortgage Backed Securities (“RMBS”) and Islamic Residential Mortgage Backed Securities (“IRMBS”) in the capital market to fund those purchases.

## OPERATING REVIEW 2019

### Global and Domestic Economic Environment

The global economy expanded at a more moderate pace in 2019 with an estimated growth rate of 2.9% (2018: 3.7%)<sup>1</sup>. Trade policy uncertainty, geopolitical tensions, and idiosyncratic stress in key emerging market economies continued to weigh on global economic activity in the second half of 2019. Intensifying social unrest in several countries posed new challenges, as did weather-related disasters – from hurricanes in the Caribbean, to drought and bushfires in Australia, floods in eastern Africa, and drought in southern Africa. More recently, the COVID-19 outbreak which started late 2019 has also affected economic growth.

<sup>1</sup> IMF World Economic Outlook January 2020

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On the positive side, market sentiment was boosted by tentative signs that manufacturing activity and global trade were bottoming out, a broad-based shift towards accommodative monetary policy, intermittent favourable news on US-China trade negotiations, and diminished fears of a no-deal Brexit.

Growth in the Malaysian economy moderated to 3.6% in the fourth quarter of 2019 as a result of supply disruption in the commodities sector despite stronger private sector expenditure. For 2019 as a whole, the economy expanded by 4.3% (2018: 4.7%)<sup>2</sup>.

### Interest Rate and Liquidity Environment

In 2019, the banking system remained flushed with liquidity with financial institutions continuing to operate with strong capital and liquidity buffers. The Overnight Policy Rate (“OPR”) was decreased to 3.00% in May 2019 and remained unchanged until the end of the year<sup>3</sup>, while the Statutory Reserve Requirement was reduced to 3.00% effective 16 November 2019. The ringgit appreciated by 2.3% against the US dollar in the fourth quarter, in line with most regional currencies.<sup>4</sup>

### Property Market

Malaysian House Price Index increased by 0.2% to 195.7 points in 3Q 2019 (3Q 2018: 195.3 points)<sup>5</sup>, reflecting a moderation in house prices in almost all of the states in Malaysia. In the 1H 2019, the residential property sector recorded 99,922 transactions worth RM34.65 billion, an increase of 6.1% in volume and 9.5% in value from 2018. According to latest data by the National Property Information Centre as at 1H 2019, the overhang of residential properties had accumulated to 32,810 units worth RM19.76 billion. The provision of affordable housing continues to be a major policy concern in Malaysia with emphasis on the B40 income group remaining a key focus in the Government’s housing agenda under the National Housing Policy 2018-2025.

### Bond Market

In 2019, global economic growth deteriorated as the US-China trade war continued to escalate with higher tariffs from both sides. Other factors which contributed to a relatively challenging 2019 were the Brexit deal that was eventually postponed, the devaluation of the Argentina Peso as well as the unrest in Hong Kong. Also, throughout 2019, markets remained focused on the US Federal Reserve’s monetary policy where the target range of the federal funds rate was brought down by 25 bps in each of its July, September and October 2019 Federal Open Market Committee meetings to 1.50% – 1.75% (a cumulative 0.75% in 2019). The yield on the benchmark 10-year US Treasury note ranged from a high of 2.80% in January 2019 to a low of 1.43% in September 2019 and ended the year at 1.92%.

On the local front, Malaysian Government Securities (“MGS”) yields were lower across the curve, partly as a result of the cut in the OPR by 25 bps to 3.00% by Bank Negara Malaysia at its May 2019 Monetary Policy Committee meeting in reaction to weak economic growth. On average, MGS yields decreased by 69 bps across tenures in 2019.

The local corporate bonds and sukuk market moved in tandem with the MGS curve, alongside the uncertainty in the global economic outlook and dovish stance undertaken by more central banks globally wherein the yields for corporate bonds and sukuk i.e. Government Guaranteed (“GG”), Cagamas and other AAA-rated papers moved lower as at end December 2019 compared to end December 2018. In terms of credit spread, average credit spread of GG, Cagamas and other AAA-rated papers against MGS compressed by 11 bps, 13 bps and 11 bps respectively.

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<sup>2</sup> BNM Quarterly Buletin 4Q2019

<sup>3</sup> OPR was further reduced to 2.75% in January 2020.

<sup>4</sup> BNM Quarterly Buletin 4Q2019

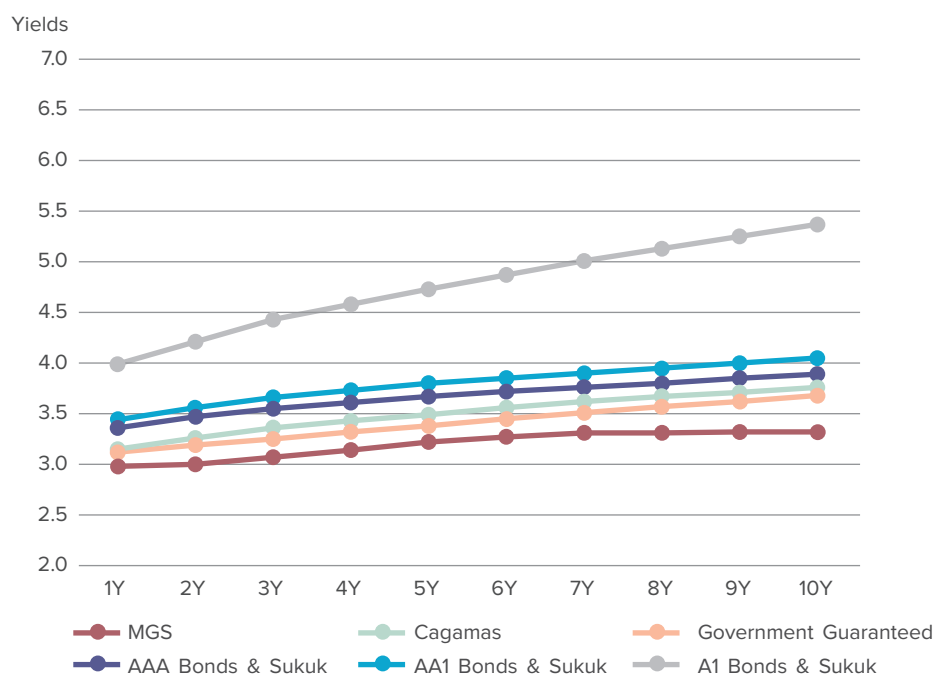
<sup>5</sup> National Property Information Centre

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Chart 1  
Bond Yield Comparison  
as at 31 December 2019



As at end December 2019, total foreign holdings of MGS were higher by RM17.7 billion to RM163.9 billion (Dec 2018: RM146.2 billion) which resulted in foreign holdings increasing to 41.6% (Dec 2018: 38.4%) of total MGS outstanding. Foreign holdings of MGS recorded its lowest for the year 2019 at 35.8% in May from 37.6% in January. The recovery in foreign holdings of MGS in the fourth quarter of 2019 was mainly due to risk-on sentiments among foreign investors arising from pause signals of global monetary policy easing and the US-China trade truce.

As for Malaysian Government Investment Issues ("MGII"), total foreign holdings increased by RM5.2 billion to RM21.1 billion as at end December 2019 (Dec 2018: RM15.9 billion) resulting in the increase in total foreign holdings of MGII outstanding as at December 2019 to 6.2% (Dec 2018: 5.2%).

Overall, total foreign holdings in MGS and MGII increased in December 2019, with total holdings higher by RM22.9 billion or 14.2% to RM185.0 billion (Dec 2018: RM162.1 billion) which translates to 23% of total MGS and MGII holdings of RM732.9 billion as at December 2019.

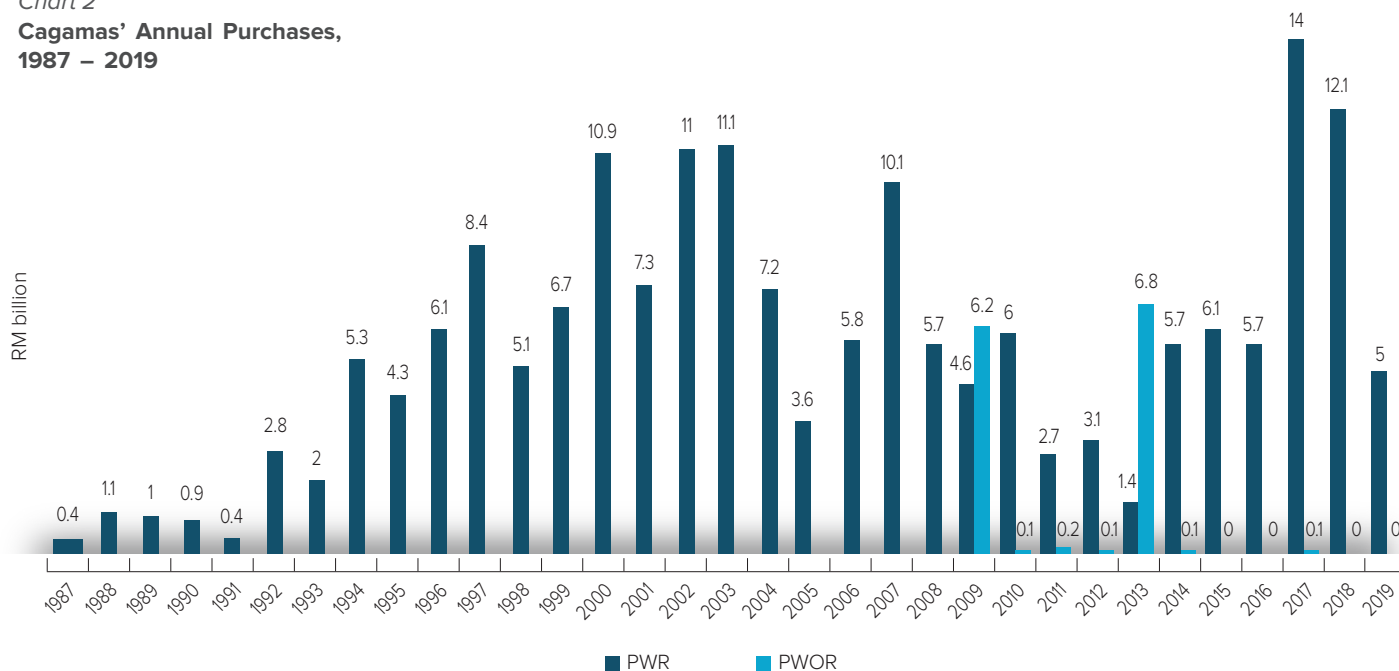
## PURCHASE OF LOANS AND FINANCING

Cagamas recorded RM5.0 billion purchases of loans and financing under the PWR scheme (2018: RM12.1 billion). No purchase of loans and financing was recorded under the PWOR scheme (2018: nil). Cagamas' net outstanding loans and financing decreased by 9.4% to RM37.8 billion (2018: RM41.7 billion). As at the end of 2019, residential mortgages dominated Cagamas' portfolio at 98.6% (2018: 98.7%), followed by hire purchase financing at 1.4% (2018: 1.2%). Cagamas' Islamic asset portfolio against conventional assets increased to a ratio of 43:57 (2018: 38:62), while PWR and PWOR loans and financing portfolios were at 70%<sup>6</sup> and 30%<sup>6</sup> respectively (2018: 71% and 29% respectively). The gross impaired loans and financing under the PWOR scheme stood at 0.72% (2018: 0.85%), while net impaired loans and financing was at 0.11% (2018: 0.43%).

<sup>6</sup> Gross loans and financing before loan loss provision and accretion

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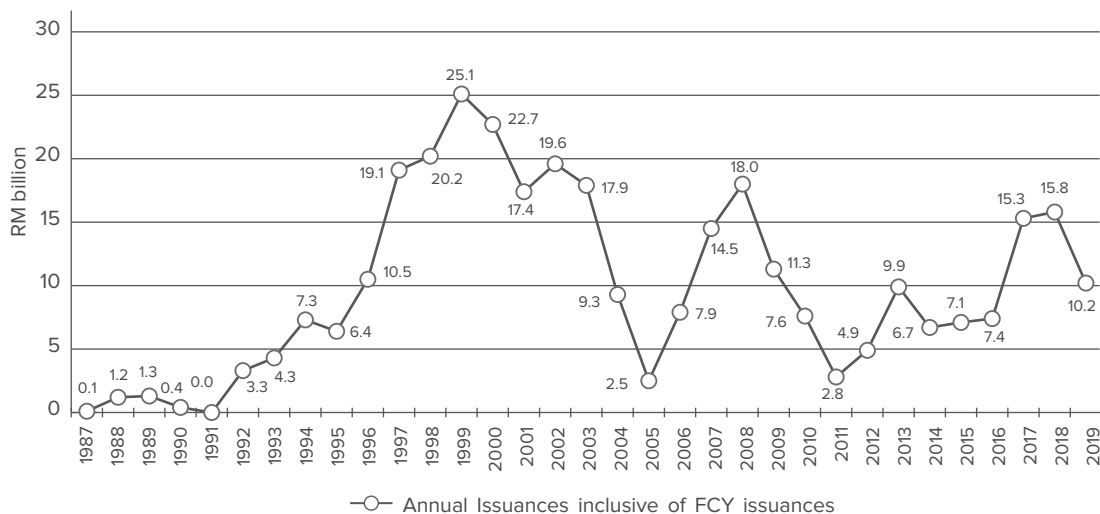
*Chart 2*  
**Cagamas' Annual Purchases, 1987 – 2019**



**ISSUANCE OF CAGAMAS BOND AND SUKUK**

Since 1987 until end 2019, Cagamas and its subsidiaries cumulatively issued a total of RM327.9 billion of corporate bonds and sukuk, out of which, RM58.8 billion comprised of sukuk issuances and RM9.98 billion equivalent was from foreign currency issuances ("FCY")

*Chart 3*  
**Cagamas' Annual Issuances, 1987 – 2019**



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As one of the largest issuers of corporate bonds and sukuk in Malaysia, Cagamas continued to diversify its funding sources and investor base to include a wider range of foreign institutional investors. In 2019, a total of RM10.2 billion worth of bonds and sukuk were issued, marking Cagamas’ third consecutive year surpassing RM10.0 billion worth of issuances through 26 Cagamas bonds and sukuk issuance exercises that resulted in 40 new stocks. From the total issuance, 61% or RM6.2 billion were raised via conventional bond issuances and 39% or RM4.0 billion were raised via sukuk issuances.

In 2019, there were no FCY mainly due to the competitive cost advantage in the local bond market evidenced by the significant tightening of MGS throughout the year which translated into a lower cost of funding for Cagamas and competitive pricing required by the asset sellers.

In terms of tenure, 79% amounting to RM8.1 billion of total issuances in 2019 were for tenures of 1 year and below (2018: 48% or RM7.6 billion) while 13% or RM1.3 billion were for tenures of between 1 year to 3 years (2018: 42% or RM6.7 billion). The balance of 8% amounting to RM0.8 billion of total issuances in 2019 were for tenures of above 3 years (2018: 10% amounting to RM1.5 billion).

Chart 4  
**Annual Bonds and Sukuk Issuances, 2006 – 2019**

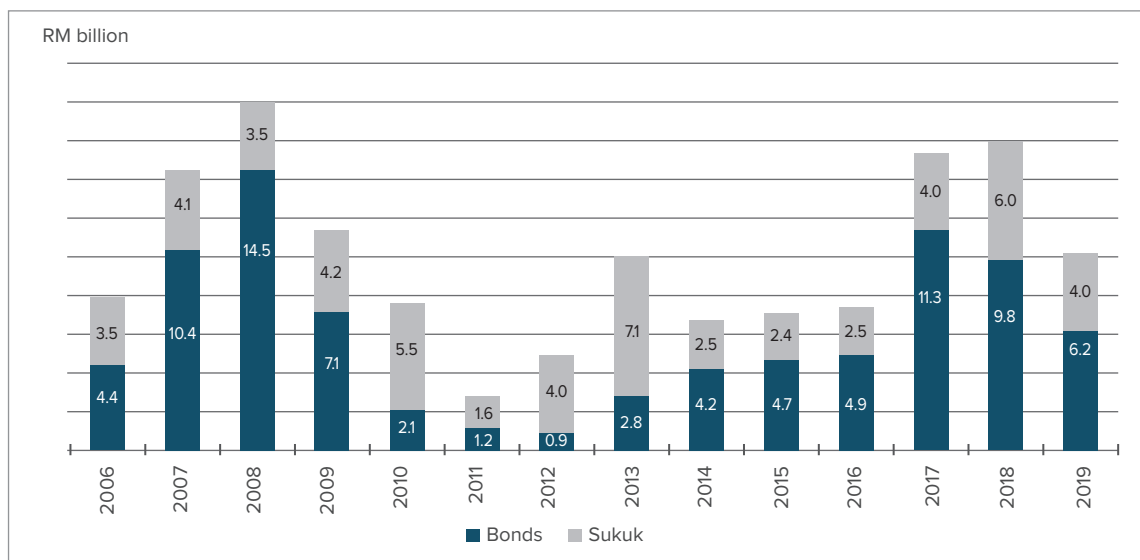
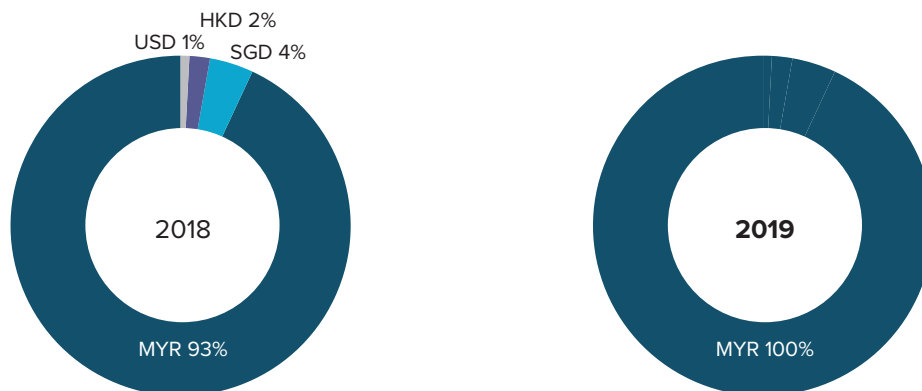
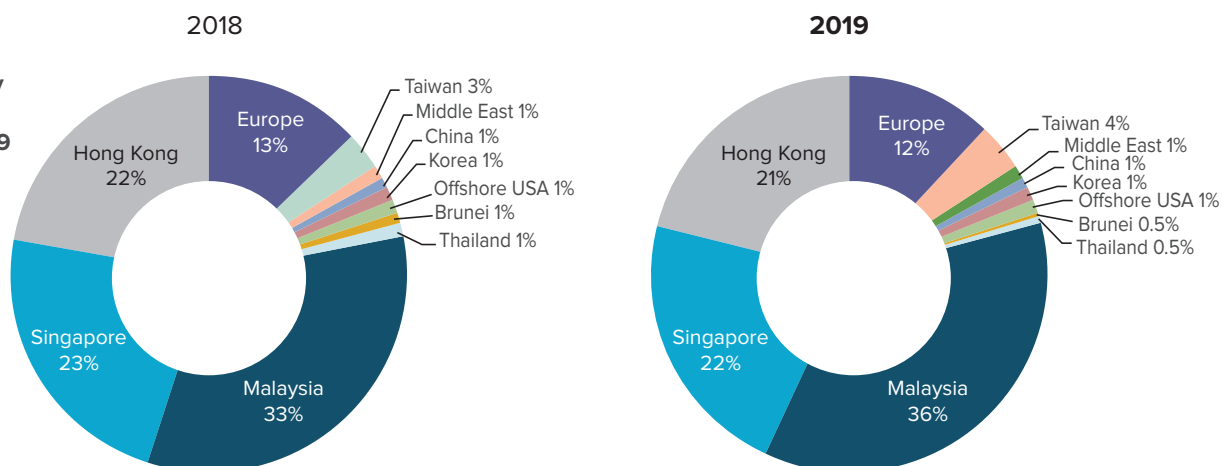


Chart 5  
**Issuances by Currency, 2018 & 2019**



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**Chart 6**  
**Number of**  
**Investors by**  
**Country,**  
**2018 & 2019**



As part of the initiatives to promote secondary market liquidity for Cagamas' bonds and sukuk, reopening exercises has been conducted since October 2015 under its RM60.0 billion Medium Term Notes programme. In 2019, Cagamas reopened a total of three tranches in July (1 reopening) and November (2 reopenings) for a combined size of RM800.0 million.

**Table 1**  
**Bonds and Sukuk Reopening, 2019**

2019 Bonds and Sukuk Reopening			
	July	November	
Initial Issue Size	RM50 mil.	RM75 mil.	RM25 mil.
Reopened Amount	RM700 mil.	RM60 mil.	RM40 mil.
New Size	RM750 mil.	RM135 mil.	RM65 mil.
Type	Bond	Bond	Bond

In terms of the most traded local corporate bonds and sukuk in 2019, Cagamas ranked sixth with a total traded volume of RM4.8 billion, commanding a market share of 2.9%. In terms of the most traded local conventional corporate bonds in 2019, Cagamas ranked first with a total traded volume of RM2.9 billion, comprising a market share of 14.0%.

As at end December 2019, outstanding Cagamas debt securities stood at RM36.5 billion where RM33.9 billion or 93% was in local currency and RM2.7 billion equivalent or 7% was denominated in foreign currencies. Conventional bonds comprised 57% or RM20.7 billion of the total outstanding while the remaining 43% or RM15.8 billion were sukuk. Cagamas remained one of the largest issuers of corporate bonds and sukuk in Malaysia, accounting for 5% of total outstanding corporate bonds and sukuk and 20% of outstanding AAA-rated bonds and sukuk.

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### RATINGS

For 2019, Cagamas successfully reaffirmed its ratings with 3 rating agencies. Moody's Investors Service ("Moody's") assigned long-term issuer A3 ratings for both Cagamas' local and foreign currency capital market programmes, in line with Malaysian sovereign ratings. RAM Rating Services Berhad ("RAM Ratings") assigned Cagamas' Global, ASEAN and national-scale corporate credit ratings at  $gA_2$ /Stable/ $gP1$ ,  $seaAAA$ /Stable/ $seaP1$  and AAA/Stable/P1 respectively. In addition, Malaysian Rating Corporation Berhad ("MARC") assigned Cagamas' bonds and sukuk issues ratings at AAA/MARC-1 and  $AAA_{IS}$ /MARC-1 $_{IS}$ , respectively. Reaffirmation of these ratings reflects Cagamas' ability to attract investment in its bonds and sukuk, underpinned by its strong credit rating, track record of strong capitalisation, robust asset quality and stable profitability.

Table 2: Cagamas Ratings

	Ratings Agency		
	Moody's	RAM	MARC
Cagamas Berhad	A3	$gA_2$ /Stable/ $gP1$ , $seaAAA$ /Stable/ $seaP1$ , AAA/Stable/P1	AAA/MARC-1, $AAA_{IS}$ /MARC-1 $_{IS}$

### MORTGAGE GUARANTEE

In line with the Government's effort to promote home ownership for the nation, the SPB has been extended to 2021. SPB offers a 10 per cent loan guarantee through CSRP to enable borrowers to obtain full financing and RM200 monthly instalment assistance for the first two years. For the extended period, SPB is limited to 10,000 home units, offering a total of 20,000 home units since inception in 2015.

As at 31 December 2019, CSRP's cumulative guarantee exposure to the SRP and SPB schemes was RM706.5 million as compared with RM361.1 million in 2018. The value and number of new loans and financing approved with guarantee cover under SRP and SPB have increased, mainly due to greater public awareness of the schemes through the 24 participating FIs as well as collaborations with online property portals. For 2019, the total value of new loans and financing approved for both SRP and SPB was RM3.2 billion which translates to 15,493 individuals/households.

Since the launch of SRP and SPB in 2011 and 2015 respectively, CSRP has provided guarantees for housing loans and financing totalling RM6.9 billion enabling 33,236 individuals/households to own their first house, of which 33% are from the B40 segment.

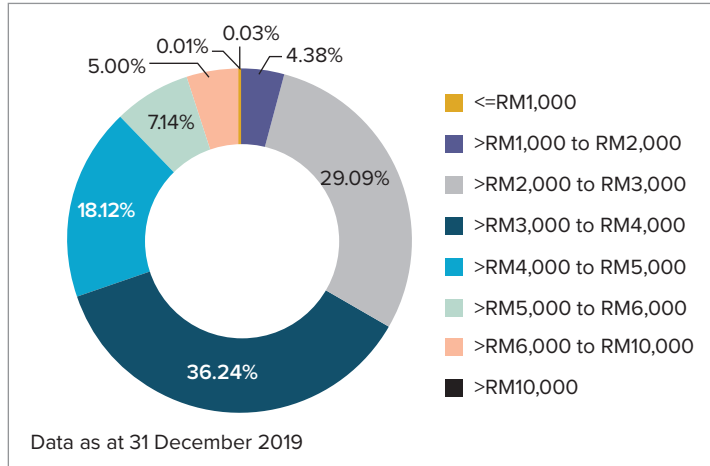
Table 3: Skim Rumah Pertamaku and Skim Perumahan Belia

	2011 – 2018	2011 – 2019	Growth
(RM'mil)			
<b>Guaranteed Exposure</b>	361.1	<b>706.5</b>	<b>+96%</b>
SRP	251.4	563.1	+124%
SPB	109.7	143.4	+31%
(RM'mil)			
<b>Loans and Financing Value</b>	3,695.6	<b>6,880.1</b>	<b>+86%</b>
SRP	2,547.7	5,368.1	+110%
SPB	1,147.9	1,512.0	+32%
<b>Number of Loans and Financing Approved</b>	17,743	<b>33,236</b>	<b>+87%</b>
SRP	12,478	26,213	+110%
SPB	5,265	7,023	+33%

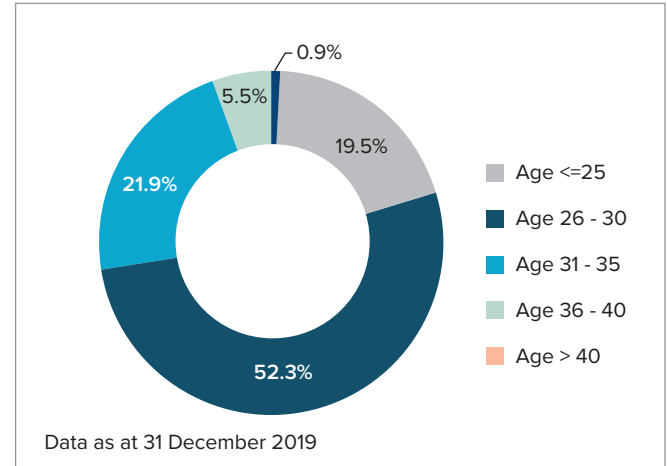
Note: Latest figures may differ with previous reporting due to revisions requested by counterparties

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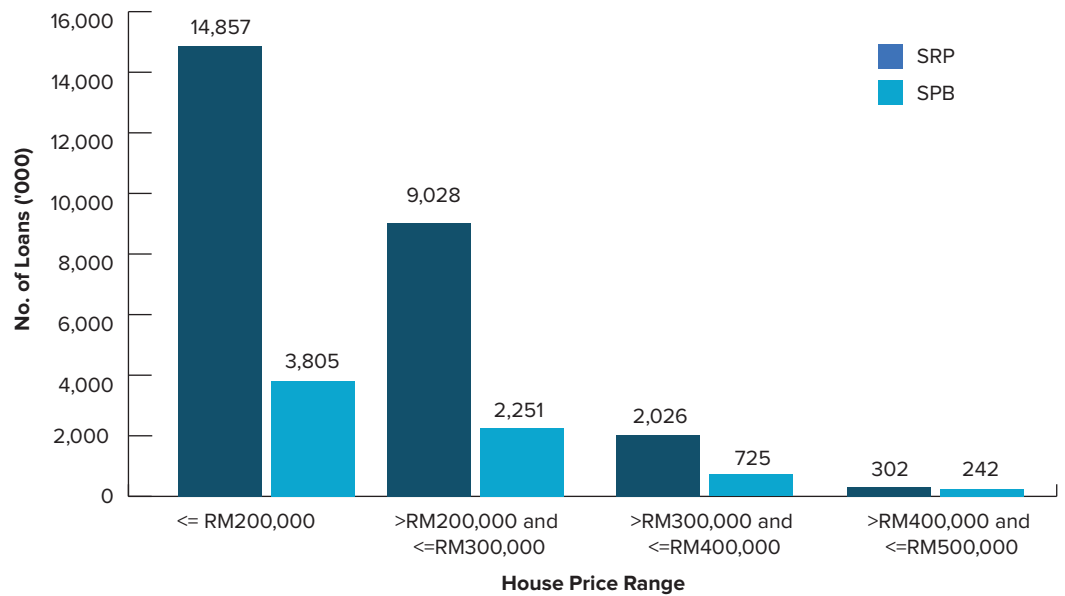
*Chart 7*  
**SRP & SPB: Salary Range by Number of Loans**



*Chart 8*  
**SRP & SPB: Age Range by Number of Loans**



*Chart 9*  
**SRP & SPB: House Price Range by Number of Loans**





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### SECURITISATION

As at end 2019, the total outstanding CMBS bonds and sukuk, stood at RM2.0 billion out of the total issuances of RM10.2 billion, comprising RM1.0 billion each of RMBS and IRMBS. The outstanding CMBS bonds and sukuk are expected to mature in stages and will be fully redeemed by August 2027. There was no new securitisation deal during the year.

### FUTURE DEVELOPMENTS IN CAGAMAS' BUSINESS

Cagamas will strive to innovate and identify new business opportunities to enhance its position in providing liquidity and support to the local FIs, Government and homeownership initiatives through competitive solutions. Cagamas intends to continue its core mission and objective to promote homeownership, its role as a liquidity and capital management solutions provider as well as to provide first loss protection through mortgage guarantee programmes. Given its role as the National Mortgage Corporation, Cagamas has been an active participant in discussions with the Government on affordable housing financing schemes. Moving forward, the value proposition that Cagamas has to offer would be aligned with the Government's aspirations on affordable housing.

Cagamas is also exploring the feasibility of purchasing loans and financing related to environmental and social impact projects via the issuance of sustainability bonds and sukuk, in line with Malaysia's aspirations to transition to a more environmentally friendly economy. This will attract green and socially responsible investors to the existing pool of investors in its efforts to promote homeownership.

Cagamas seeks to structure and participate in innovative schemes such as Home Equity, Rent-to-Own, Public-Private Partnerships and any other alternative funding mechanisms to meet the demands and needs of specific customers in purchasing their first homes, as well as looking into the retirement space by exploring the feasibility of introducing a reverse mortgage programme for the silver economy. In addition, Cagamas intends to expand and diversify its investor profile by targeting cross-border investors to subscribe to our primary and Euro Medium Term Notes public issuances as well as focusing on providing liquidity support for Small and Medium Enterprise financing via capital market solutions.

Finally, as part of Cagamas' efforts to enhance the regional development of the secondary mortgage markets, in 2019 Cagamas signed Memoranda of Understandings ("MOUs") to collaborate with Korea Housing Finance Corporation, Japan Housing Finance Agency and Philippines' National Home Mortgage Finance Corporation with the objective of sharing knowledge and expertise for the positive development of the respective mortgage markets. So far Cagamas has executed a total of six MOUs with similar counterparts, with the others being Indonesia's PT. Sarana Multigriya Finansial (Persero), Mongolian Mortgage Corporation and Thailand's Secondary Mortgage Corporation. Cagamas will also continue to play its leadership role with the International Secondary Mortgage Market Association as well as the Asian Secondary Mortgage Market Association to bring together secondary mortgage market institutions to focus on advocacy on regulatory issues, share information, and provide support to newly-established institutions in this space.