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## CHAIRMAN'S STATEMENT

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## CHAIRMAN'S STATEMENT (CONTINUED)

### DEAR SHAREHOLDERS,

On behalf of the Board of Directors ("the Board"), I am pleased to present the Annual Report of Cagamas Holdings Berhad ("Company") for the financial year ended 31 December 2019.

#### STRATEGIC INITIATIVES

Cagamas Berhad ("Cagamas") has seen tremendous growth in the past three decades since its inception in 1986. As the main operating subsidiary, Cagamas has promoted the broader spread of home ownership and pioneered the nation's secondary mortgage market. These achievements have been widely recognised in the industry both locally and globally.

In the next decade and beyond, Cagamas will continue to build on this solid foundation and strengthen its culture of innovation to be ahead of the curve and focus on seeking opportunities in a fast-changing world.

In 2019, Cagamas undertook a strategic review of its mandate vis-à-vis the current market environment, its product offerings and capabilities. The review encompassed understanding trends in the financial markets and the changing housing needs of Malaysians. Insights from the review will enable the deployment of capital and resources to identified untapped segments in anticipation of rapid changes in the housing finance ecosystem.

Cagamas' traditional role as a provider of liquidity and mortgage guarantee is set to evolve to include becoming an affordable-housing enabler. The aim over the next three years is a gradual expansion of revenue streams, to include new strategic areas, and to play a bigger role in supporting the Government's affordable housing programmes.

Cagamas intends to develop a range of products and services such as risk participation, home equity schemes, reverse mortgage for retirees and home loan guarantees for gig economy workers to address the needs of Malaysians at various stages of their housing lifecycle.

#### BEYOND LIQUIDITY AND GUARANTEE

One of the new strategic initiatives is in the area of risk participation. This initiative will facilitate Islamic Financial Institutions in particular, to strive for asset growth with more efficient use of capital, while having the ability to manage risk exposure.

Cagamas is aligning its product offerings alongside the homeownership aspects of Budget 2020 by allocating resources to work with the Government, FIs and private developers under Public Private Partnership on homeownership schemes such as Rent-to-Own programmes. This is one of the many initiatives to help address the ongoing concerns of home prices rising beyond the affordability of most B40 and M40 households.

As homeownership continues to elude many millennials, Cagamas intends to assist young Malaysians achieve their aspiration of owning a home earlier, particularly those who have stable earning capacity but are struggling to keep up with the rising cost of living. A Home Equity Scheme ("HES") will provide a more affordable approach for first-time home buyers who qualify for at least 80% margin of financing from a bank. The scheme acts as an alternative source to help bridge the funding gap, allowing homebuyers sufficient time to fully transition into a traditional bank home loan.

#### HOME FINANCING REIMAGINED

The gig economy is expanding rapidly in Malaysia, especially among the younger generation who are drawn to the opportunities and work culture in this emerging segment. It is estimated that as much as 26% of the Malaysian workforce are freelancers and the number is growing. Cagamas plans to provide this segment of the population access to homeownership by offering innovative home financing options alongside traditional banking offering, such as a mortgage guarantee mechanism and risk participation with financial institutions.

According to the Department of Statistics Malaysia, the number of retirees and elderly citizens is rising in the country, with the proportion of Malaysians aged 65 and above projected to reach 7.2% of the population by 2020. Cognisant of a burgeoning group of older Malaysians and the rising cost of living, the feasibility of introducing a reverse mortgage programme for the silver economy is being explored. This programme aspires to allow retired Malaysians to unlock equity in their assets such as property hence converting it into a stable lifelong income stream to support and enhance the quality of their retirement lives while still enjoying access to their homes.

## CHAIRMAN'S STATEMENT

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### PRIORITISING SUSTAINABILITY

As the national mortgage corporation, Cagamas is mindful of its role and influence to assist Malaysia achieve its United Nations Sustainable Development Goals by 2030 under the Eleventh Malaysia Plan. Resources are intended to be earmarked to support the country's commitment, especially in the area of developing and managing sustainable cities and communities by making housing affordable and inclusive.

Cagamas seeks to create a broader impact in the Environment, Social and Governance ("ESG") ecosystem by giving our clients access to capital required to finance ESG compliant assets such as affordable homes for deserving Malaysians. The objective is to source and deploy capital from socially responsible investors to finance or refinance qualifying, sustainability related projects and qualifying asset classes. The first step has been successfully taken by lodging the Cagamas Sustainability Bond/Sukuk Framework with the regulatory authority, as part of our RM60 billion Medium Term Notes Issuance programme. An inaugural sustainability issuance is targeted in 2020.

More recently, Cagamas has advocated for a clear and consistent naming convention for ESG products across the industry to enable informed investing decisions for funds labelled as "sustainable". To this end, Cagamas will collaborate with regulatory authorities to provide relevant input for their Climate Change and Principle-Based Taxonomy which can be used as the Malaysian financial industry's benchmark. It is hoped that this taxonomy will provide prospective investors and issuers with a common definition for Green Loans or Green Housing Loans, including prerequisites for Green or ESG Funding eligibility.

On the other hand, Cagamas SRP Berhad ("CSRP") as the Company's subsidiary, continues to support the Government's agenda to promote affordable housing to the nation through the Skim Rumah Pertamaku ("My First Home Scheme", "SRP") and Skim Perumahan Belia ("Youth Housing Scheme", "SPB") As at December 2019, CSRP saw a dramatic increase in total loans/ financing approved at 15,493 compared to 7,881 in 2018 due to greater public awareness of the schemes. CSRP provided guarantees for housing loans/financing totalling RM6.9 billion, enabling about 33,236 individuals/households to own their first homes, of which 33% are from the B40 segment. In 2020, CSRP will partner with property technology companies to digitally promote SRP to broaden access to home financing for this population segment. With these new collaborations, CSRP expects incremental contribution towards SRP and SPB loans/ financing approvals in 2020.

Through its Corporate Social Responsibility ("CSR") Programmes, Cagamas, in partnership with selected charitable and Non-Governmental Organisations such as Teach for Malaysia, Incitement Malaysia and Amanah Ikhtiar Malaysia, has contributed RM144,100 in 2019 to raise education equity for the highest-need schools and communities, to provide sustainable basic facilities for disadvantaged communities and to empower single mothers to increase their family income. On the education front, the Cagamas Scholarship Programme has, as at 2019, sponsored 15 scholars from low-income households at an allocation of RM480,000. Under the Cagamas Zakat Wakalah programme, RM249,000 has been distributed to eligible asnaf recipients in 2019.

### UPHOLDING STANDARDS

Cagamas remains focused on upholding standards as a high-performing organisation by constantly improving our work culture and engagement, strengthening leadership accountability and accelerating the professional development of our employees. In May 2019, the Enhanced Flexible Working Hours was launched to promote a more conducive environment for employees by providing them the option of managing their working hours to elevate performance and increase productivity. In order to ensure the organisation's agility to capitalise on emerging opportunities and to succeed in new strategic areas, significant emphasis is placed on developing technical competencies and leadership skills to improve the broader culture, climate and performance within the organisation. To date, 67% of the staff in critical positions possess various professional certifications and high-potential staff continue to be identified and enrolled for leadership development programmes. These are some of the efforts which are part of Cagamas' human capital strategy to stay ahead.

From a governance perspective, in 2019, both the Company and its main operating entity, Cagamas, successfully adopted new constitutions which are aligned with the Companies Act 2016. The exercise to harmonise the Company's organisational framework, which includes the rights and obligations of each company, its directors and shareholders with progressive regulatory standards, continues to be carried out for other selected subsidiaries within the Cagamas Group of Companies ("Group"). In observation of the highest standards of corporate governance and as best practice, the Company, Cagamas and CSRP adopted Bank Negara Malaysia Corporate Governance 2016 policy document as guiding principles in their respective Board Charters. In 2019, although compliance with the Malaysian Code of Corporate Governance 2017 is not obligatory, Cagamas updated its Board Charter to enhance the company's governance

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## CHAIRMAN'S STATEMENT

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standards and practices as championed by the latest Code. Meanwhile, as board composition influences the ability of the Board to fulfil its oversight responsibilities, a director skill set self-assessment tool has been adopted for succession planning purposes. This will facilitate accurate monitoring of the strengths and shortcomings of the Board and the selection of suitable directors to ensure that the Board's composition remains dynamic and relevant to the strategic direction of the Group.

### ACHIEVEMENTS AND ACCOLADES

In striving to promote regional cooperation and enhance mutual development with secondary mortgage market institutions, Memoranda of Understanding ("MOUs") have been signed with such institutions, including Korean Housing Finance Corporation, Japan Housing Corporation and the National Home Mortgage Finance Corporation of Philippines. These MOUs demonstrate Cagamas' leadership in supporting similar regional institutions in the secondary mortgage market and its commitment to learn and grow with our counterparts.

Our bonds and sukuk continue to attract both domestic and foreign investors and have been underpinned by the organisation's strong credit rating, performance track record, strong capitalisation, robust asset quality and stable profitability. These factors were reflected in its ability to maintain its international credit rating of A3 by Moody's Investors Service and the domestic ratings of AAA by both Malaysian Rating Corporation Berhad and RAM Rating Services Berhad.

In 2019, Cagamas received the overall award for Top Issuance and Top Traded Amount in the conventional category for its performance in 2018 from the Bond Pricing Agency Malaysia, the Islamic Issuer of the Year – Quasi-Sovereign and Best Local Currency Sukuk for the RM1.5 billion Commodity Murabahah at The Asset Triple A Islamic Finance Awards and the Islamic Finance Advocacy Award (Capital Market) at the Global Islamic Finance Awards.

### YEAR IN REVIEW

The global economy expanded at its slowest pace since the global financial crisis a decade ago. It was a year marked by rising trade tensions and related uncertainties that weighed on business confidence and investment globally.

Amidst an eventful year in the financial markets exacerbated by a challenging global economic environment, the Group's revenue for 2019, comprising revenues of Cagamas, Cagamas MBS Berhad ("CMBS"), and CSRP, remained steady at RM2,313.7 million, as compared with RM2,351.9 million in 2018. Both Cagamas and CMBS remained key contributors to the results of the Group.

Cagamas purchased a total of RM5.0 billion assets under the Purchase with Recourse ("PWR") scheme and issued a total of RM10.2 billion bonds and sukuk as at 31 December 2019, all in domestic currency. In 2019, no foreign-currency issuance was concluded, mainly due to the competitive cost advantage obtained in the local bonds and sukuk market, as evidenced by the significant reduction in the yields of government securities i.e., Malaysian Government Securities ("MGS") and Malaysian Government Investment Issues ("MGI"), and the spill-over effect to the corporate bonds and sukuk market. This translated into lower cost of funding to meet the cost requirement of the asset sellers.

### APPRECIATION AND ACKNOWLEDGEMENTS

On behalf of the Board, I wish to extend our appreciation to the shareholders for their continued support, and to the regulatory authorities, relevant ministries and agencies for their continued guidance in facilitating the Group to deliver its mandate effectively.

Finally, on behalf of the Board, I would like to record our deepest appreciation to the management and staff of Cagamas for their dedication, commitment and valuable contribution throughout the year.



**Dato' Bakarudin Ishak**  
Chairman