



PILLAR 3 DISCLOSURE

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1.0 OVERVIEW

The Pillar 3 Disclosure is part of Bank Negara Malaysia's (BNM's) requirements under its Risk-Weighted Capital Adequacy Framework (RWCAF) which consists of 3 Pillars:

- Pillar 1** Sets out the minimum capital requirements for credit, market and operational risks.
- Pillar 2** Aims to ensure that banking institutions maintain adequate capital levels consistent with their risk profile and business plan at all times.
- Pillar 3** Aims to promote transparency through enhanced disclosure on risk management practices and capital adequacy.

From the regulatory standpoint, Cagamas Berhad and its subsidiaries (referred to herein as Cagamas/"The Company") is not required to comply with the Bank Negara Malaysia (BNM) Basel II Pillar 3 requirements but has chosen to adopt the disclosure requirement as a matter of best practices. The Company's Pillar 3 disclosure is governed by the approved Disclosure Policy on Risk-Weighted Capital Adequacy Framework (Basel II Pillar 3) which documents the content, materiality, frequency of disclosures and internal controls over the disclosure process.

In determining the capital requirement for credit risk, the Company has adopted the Advanced Internal Rating Based (AIRB) Approach for the Purchase Without Recourse (PWOR) portfolio and Standardised Approach for Purchase With Recourse (PWR) portfolio and investments.

For market risk, the Company adopts the Standardised Approach whilst risk-weighted capital requirement for operational risk is based on the Basic Indicator Approach which is the average of a percentage fixed by BNM of positive annual gross income over the previous three years.

Under the BNM's RWCAF Basel II Pillar 3, the information disclosed herein is not required to be audited by external auditors. However, the disclosures provided herein have been reviewed and verified by internal auditors and attested by the Chief Executive Officer. The Pillar 3 disclosure will be published annually together with the annual report which is available on the Company's website, www.cagamas.com.my.

2.0 SCOPE OF APPLICATION

The basis for consolidation is described in Note 2.2 to the financial statements. There are no significant restrictions or impediments to the transfer of funds or regulatory capital within the Cagamas Holdings Group (The Group). There are no capital deficiencies in any of the subsidiary companies of the Group during the year.

For the purpose of this Pillar 3 disclosure, the scope shall be restricted to the subsidiary which is material in relation to the Group's assets i.e. Cagamas Berhad and its subsidiaries only (i.e. "The Company"). The disclosures published are for the year ended 31 December 2018 which is based on the consolidated financial statement of Cagamas Berhad. Information on subsidiaries of the Group is available in the notes to the financial statements.

3.0 CAPITAL MANAGEMENT

The Company's capital management is guided by its Capital Management Framework which sets out the minimum policies and procedures required to be put in place to ensure adequate capital is maintained to support the development of its businesses.

The framework aims to ensure that the Company reviews its capital requirements over a minimum of a 3-year period, consistent with the Company's risk profile and business plan and also to maintain an adequate capital level at all times. This involves the following key initiatives:

- Focus on measuring return on capital employed in evaluating business proposals that requires incorporating the Company's unique developmental role in the debt capital market and as a liquidity provider;
- Continuous monitoring of the robustness of its capital position and an efficient use of capital through the 3-year capital plan;
- Early planning to meet Basel III requirements, including the implementation of the ICAAP as well as ensuring that capital requirements under stressed scenarios are taken into account in capital planning.

The capital management strategy is dynamic and forward-looking, incorporates the capital needs of existing and new businesses and takes into account the business environment that impacts the needs and value of the Company.

The strategy involves the proactive management of the Company's capital structure to be effective whilst maintaining a strong and robust capital position aligned to the risk profile and supports business growth. This involves ongoing review and monitoring of the level and quality of the Company's capital by the Board of Directors, and is assessed based on the following key objectives:

- Maintaining a high level of financial strength, correlated to the overall risk profile and risk appetite;
- Preserving financial flexibility for funding internal growth;
- Be able to withstand capital demands under market shocks and stress conditions;
- Maintaining the Company's strong external credit ratings; and
- Satisfying the expectations of the various stakeholders, counterparties, debt obligors, rating agencies and shareholders.

The guidelines on capital adequacy framework issued by BNM sets out the general requirements concerning regulatory capital adequacy, components of eligible regulatory capital and requirements for computing risk-weighted assets (RWA). RWA for the Company is computed in accordance with the Basel II Capital Adequacy Framework.

3.1 Capital Adequacy Ratios

The following table details the capital adequacy ratios for the Company:

	2018	2017
<i>Before deducting the proposed final dividends</i>		
Core capital ratio	28.3%	20.9%
Risk-weighted capital ratio	29.9%	22.3%
<i>After deducting the proposed final dividends</i>		
Core capital ratio	28.1%	20.7%
Risk-weighted capital ratio	29.7%	22.2%

3.0 CAPITAL MANAGEMENT (CONTINUED)

3.2 Capital Structure

The following table details the capital structure for the Company:

	2018 RM'000	2017 RM'000
<i>Tier I Capital</i>		
Issued capital	150,000	150,000
Retained profits	3,520,998	3,300,646
AFS reserves	-	(724)
Financial asset at FVOCI reserves	878	-
Deferred tax assets	(29,179)	(7,965)
Less: Regulatory reserves	(144,472)	(161,032)
	3,498,225	3,280,925
<i>Tier II Capital</i>		
Allowance for impairment losses	53,182	68,232
Add: Regulatory reserves	144,472	161,032
	3,695,879	3,510,189

3.3 Minimum Regulatory Capital Requirement

The following table presents the minimum capital requirements to support the Company's RWA:

Exposure Class		
Risk weighted assets		
i) Credit Risk	11,672,578	15,026,002
ii) Operational Risk	685,542	711,021
Total risk-weighted assets	12,358,120	15,737,023
Minimum capital requirement at 8%		
i) Credit Risk	933,806	1,202,081
ii) Operational Risk	54,843	56,882
Total	988,649	1,258,963

4.0 RISK MANAGEMENT

The Group takes a holistic and enterprise-wide view in managing risk across the subsidiaries with regular evaluation of risks.

4.1 Enterprise Risk Management (ERM) Framework

ERM forms part of the Group's culture and is embedded into business, operations and decision-making processes and practices. The Board approved ERM Framework details the responsibility and accountability of the Board of Directors (Board), Board Risk Committee (BRC), Chief Executive Officer (CEO), Senior Vice President, Risk Management Department, Management Executive Committee (MEC), Asset Liability Committee (ALCO), Risk Management Department (RMD), Internal Audit Department (IAD) and Cagamas employees.

The ERM Framework is geared towards achieving Group's objectives, set forth in four categories:

- Strategic – high-level goals, aligned with and supporting its mission
- Operations – effective and efficient use of its resources
- Financial – profitability and sustainability of performance
- Reporting & Compliance – reliability of reporting and compliance with applicable laws and regulations

In line with the ERM, three lines of defence in managing risks is adopted within the Group. Business units being the first line of defence have the primary responsibility of identifying, mitigating and managing risks within their lines of business. They also ensure that their day-to-day activities are carried out within established risk policies, procedures and limits.

An independent RMD plays the role of second line of defence by providing specialised resources to proactively manage risks. This includes the assessment of risk exposures and the coordination of risk management on an enterprise-wide basis. RMD is also responsible for ensuring that risk policies are implemented accordingly.

The IAD being the third line of defence is responsible for independently reviewing the adequacy and effectiveness of risk management processes, system of internal controls and compliance with internal risk policies.

4.2 Risk Governance Structure

The Board sets the overall strategic direction for the Group. It provides oversight to ensure that Management has appropriate risk management system and practices to manage risks associated with the Group's operations and activities. The Board sets the risk appetite and tolerance levels that are consistent with the Group's overall business objectives and desired risk profile. The Board also reviews and approves all significant risk management policies and risk exposures.

The BRC assists the Board by ensuring that there is effective oversight and development of strategies, policies and infrastructure to manage the Group's risks. The BRC is supported by management committees which address key risks identified.

The MEC and ALCO which comprises senior management of the Group are chaired by the CEO and undertake the oversight function for capital allocation and overall risk limits, aligning them to the risk appetite set by the Board. Management is also responsible for the implementation of policies laid down by the Board and ensuring there are adequate and effective operational procedures, internal controls and systems to support these policies.

The RMD is responsible for identifying, measuring, analysing, controlling, monitoring and reporting of risk exposures independently and coordinating the management of risks on an enterprise-wide basis. It is independent of other departments involved in risk taking activities and reports directly to the BRC.

4.0 RISK MANAGEMENT (CONTINUED)

4.3 Internal Capital Adequacy Assessment Process (ICAAP)

ICAAP primarily involves a comprehensive assessment of all material risks that the Company is exposed to, assessing the adequacy of the Company's capital in relation to its risks and set capital targets that commensurate with its risk profile and operating environment, taking into consideration the Company's business strategy and risk appetite. The following are the main components in the Company's ICAAP:

Risk Appetite

Risk Appetite is the acceptable risk tolerance for each material risk category and other related parameters in achieving the Company's business objectives. It does not seek to prevent risk taking. Instead, it ensures that the risks undertaken by the Company are aligned to its chosen business strategies.

Material Risk Assessment & Quantification

Analyse all risks that occur in the Company's business activities and recognise the risks that the Company is in or can be exposed to in the future. These include quantifiable and non-quantifiable risks. Risks are aggregated in order to determine the Company's overall risk under the ICAAP, including impact assessment of stress on internal RWCR target.

Stress Testing

A rigorous and forward-looking stress testing is an integral part of ICAAP, enabling the Company to assess the impact to its capital adequacy arising from adverse events or changes in market conditions. Further stress testing would enable the Company to assess the vulnerability of its statement of financial position and resilience of financial plans to extreme but plausible stress events.

To ensure effectiveness of stress test results, a range of scenarios is considered which includes at least an adverse economic scenario that is severe but plausible, such as a severe economic downturn and/or a system-wide shock to liquidity. The stress would be company-wide covering all relevant risk areas and material entities within the Company. Results of the stress test are deliberated by the MEC and reported to the BRC and Board.

Capital Management

Measurement of the Company's available capital and capital instruments is detailed out in the Capital Management Framework. The components considered in available capital are reviewed or enhanced when required to ensure relevance.

Independent Review

An independent review of ICAAP is performed to review the processes or systems for assessing the various risks that the Company is exposed to and for relating the risks to capital levels. The scope includes review of the appropriateness of the internal capital adequacy assessment process, the identification of material risks, the reasonableness of stress testing scenarios, the integrity, verifiability and completeness of data inputs and the assumptions used.

5.0 CREDIT RISK

Credit risk is defined as the potential for financial loss resulting from the failure of a borrower or counterparty to fulfil its financial or contractual obligations. Credit risk within the Company arises from Purchase with Recourse (PWR) and Purchase without Recourse (PWOR) business, investments and treasury hedging activities. The Company seeks to take credit risk that meets the underwriting standards while ensuring risk taken commensurate with the return.

Credit Risk Management Oversight and Organisation

The Management Executive Committee (MEC) is the senior management committee responsible for the Company's overall credit risk exposures, taking a proactive view of risks and to position the credit portfolio. MEC, which is chaired by the CEO also reviews the Company's credit risk management framework, the credit profile of material portfolios and aligns credit risk management with business strategy.

Business Units undertake thorough credit assessment prior to submission to the Credit Risk Section of the RMD. The Credit Risk Section will independently assess the credit risk of the counterparty taking into consideration the financial strength and business profile prior to recommendation to the MEC. Credit Risk Section is also responsible for formulating and developing credit risk policies and procedures for identifying, measuring, monitoring and reporting credit risk of the Company. Credit limits are approved by MEC within the risk appetite set by the Board.

Regular risk reporting which include quality of portfolio, changes in counterparties' rating and concentration risk exposures is made to the BRC and Board for an oversight function.

Credit Risk Management Approach

Credit risk management includes the establishment of credit risk policies and procedure manual wherein the credit processes, controls, approval authority, risk rating/scoring and review are documented. These standards cover credit origination, measurement and documentation as well as problem recognition, classification and remedial actions.

The Company manages its credit risk via a thorough assessment of the counterparties, stipulates prudent eligibility criteria and conducts due diligence on loans and financings to be purchased. The Company has in place an internal rating system which sets out the maximum credit limit permissible for each category of rating.

Credit limits are reviewed periodically and are determined based on the combination of external ratings, internal credit assessment and business requirement. Financing activities are also guided by internal credit policies, procedure manuals and Risk Appetite Framework that are approved by the Board.

5.0 CREDIT RISK (CONTINUED)

Key areas of credit exposures:

(a) Purchase With Recourse (PWR)

Under the PWR scheme, the Company takes on counterparty risk i.e. credit risk of the selling institutions given the latter's undertaking to repurchase or replace ineligible loans. Reviews on counterparties are conducted at least once a year with updated information. The Company has strict limits on counterparty exposures based on rating and internal credit assessment. In addition, concentration risk under PWR are managed and monitored via concentration limits established based on the type of counterparty and the type of assets.

(b) Purchase Without Recourse (PWOR)

As for PWOR scheme, the Company absorbs all the credit risk of the loans and financing acquired wherein purchases are restricted to the approved sellers and assets. Purchase of these loans is managed via adherence to stringent eligibility criteria and due diligence on the portfolio prior to the purchase. To further mitigate credit risks, PWOR purchases may include loans with automated salary deduction feature. These portfolios are monitored via concentration limits based on property types and location.

(c) Investment and Derivatives Activities

The management of credit risk arising from the Company's investment of its surplus funds is primarily via the setting of counterparty credit limits. These credit limits are established following an assessment of the counterparty creditworthiness and is subject to the credit policy on investment which stipulates the minimum investment grade for debt securities and the maximum tenure. The policy is subject to regular review. Credit exposures are also controlled through independent monitoring and reporting of excesses and breaches against approved limits and risk mitigation thresholds.

The Company's exposures to Interest Rate Swap (IRS), Islamic Profit Rate Swap (IPRS), Cross Currency Swap (CCS) and Islamic Cross Currency Swap (ICCS) are for hedging purposes only.

5.1 Credit Risk Mitigation

Generally, credit limits are not granted solely on the basis of the collateral provided as all credit limits are assigned on the basis of the counterparty's credit standing, source of repayment and debt servicing ability.

Under the PWR scheme, the Company accepts guarantee from the parent company of the corporate and institutional counterparties to mitigate credit risk subject to internal guidelines and policy. For the credit exposure which is secured by a guarantee from an eligible guarantor, the portion of the exposure is weighted according to the risk weight appropriate to the guarantor. In accordance with the BNM's RWCAF guidelines, this guarantee shall not be considered again for credit risk mitigation purposes as the rating has already taken into account the guarantee pledged by the parent of the counterparty.

5.0 CREDIT RISK (CONTINUED)

5.1 Credit Risk Mitigation (Continued)

The following table presents the minimum regulatory capital requirement for credit risk:

Exposure Class Credit Risk	Total exposures before Credit Risk Mitigation RM'000	Total exposures after Credit Risk Mitigation RM'000	Risk weighted assets RM'000	Minimum capital requirement at 8% RM'000
2018				
On-balance sheet exposure:				
Sovereign & Central Banks	1,384,619	1,384,619	-	-
Banks, Development Financial Institutions & Multilateral Development Banks	30,879,026	30,879,026	7,304,430	584,354
Corporates & Leasing companies	1,197,322	1,197,322	315,687	25,255
Mortgage assets	11,152,743	11,152,743	3,414,251	273,140
Hire purchase assets	728	728	201	16
Other assets	75,070	75,070	75,070	6,006
Defaulted exposures	107,548	107,548	428,795	34,304
Total	44,797,056	44,797,056	11,538,434	923,075
Off-balance sheet exposure:				
Derivative financial instruments	670,721	670,721	134,144	10,731
Total Credit Exposures	45,467,777	45,467,777	11,672,578	933,806
2017				
On-balance sheet exposure:				
Sovereign & Central Banks	1,332,946	1,332,946	-	-
Banks, Development Financial Institutions & Multilateral Development Banks	24,411,845	24,411,845	9,295,771	743,662
Corporates & Leasing companies	3,143,648	3,143,648	1,324,915	105,993
Mortgage assets	12,048,886	12,048,886	3,717,532	297,403
Hire purchase assets	739	739	259	21
Other assets	28,419	28,419	28,417	2,273
Defaulted exposures	100,026	100,026	398,806	31,904
Total	41,066,509	41,066,509	14,765,700	1,181,256
Off-balance sheet exposure:				
Derivative financial instruments	852,217	852,217	260,302	20,824
Total Credit Exposures	41,918,726	41,918,726	15,026,002	1,202,080

5.0 CREDIT RISK (CONTINUED)

5.2 Distribution of Credit Exposures

The Company's counterparties are mainly the Government of Malaysia (GOM), financial institutions, development financial institutions and corporate companies in Malaysia. The following tables present the analysis of credit exposure of financial assets before the effect of credit risk mitigation of the Company by:

(a) Industrial analysis based on its industrial distribution:

2018	Cash and short term funds RM'000	Derivatives financial instruments RM'000	Financial asset at FVOCI RM'000	Amount due from counter parties RM'000	Islamic financing debts RM'000	Mortgage assets RM'000	Islamic mortgage assets RM'000	Islamic hire purchase assets RM'000	Other assets RM'000	Total RM'000
Government bodies	-	-	952,666	-	-	-	-	-	773	953,439
Financial institutions:										
- Commercial banks	144,550	362,078	515,767	19,875,677	10,029,953	-	-	-	-	30,928,025
- Investment banks	42,242	-	-	-	-	-	-	-	-	42,242
Communications, electricity, gas and water	-	-	100,565	-	-	-	-	-	-	100,565
Transportation	-	-	365,378	-	-	-	-	-	-	365,378
Leasing	-	-	-	529,247	-	-	-	-	-	529,247
Consumers	-	-	-	-	-	5,344,710	5,915,527	781	-	11,261,018
Corporate	-	-	192,685	-	-	-	-	-	-	192,685
Construction	-	-	76,090	-	-	-	-	-	-	76,090
Others	-	-	273,134	-	-	-	-	-	6,878	280,012
Total	186,792	362,078	2,476,285	20,404,924	10,029,953	5,344,710	5,915,527	781	7,651	44,728,701

5.0 CREDIT RISK (CONTINUED)

5.2 Distribution of Credit Exposures (continued)

(a) Industrial analysis based on its industrial distribution (continued):

2017	Cash and short term funds RM'000	Derivatives financial instruments RM'000	AFS investment securities RM'000	Amount due from counter parties RM'000	Islamic financing debts RM'000	Mortgage assets RM'000	Islamic mortgage assets RM'000	Islamic hire purchase assets RM'000	Other assets RM'000	Total RM'000
Government bodies	-	-	897,126	-	-	-	-	-	1,325	898,451
Financial institutions:										
- Commercial banks	466,079	466,339	612,659	18,615,537	4,273,959	-	-	-	-	24,434,573
- Investment banks	68,510	-	-	-	-	-	-	-	-	68,510
Communications, electricity, gas and water	-	-	100,945	-	-	-	-	-	-	100,945
Transportation	-	-	379,040	-	-	-	-	-	-	379,040
Leasing	-	-	-	286,304	-	-	-	-	-	286,304
Consumers	-	-	-	-	-	5,848,119	6,300,576	953	-	12,149,648
Corporate	-	-	147,415	968,537	1,270,419	-	-	-	-	2,386,371
Construction	-	-	81,186	-	-	-	-	-	-	81,186
Others	2	-	253,059	-	-	-	-	-	7,628	260,689
Total	534,591	466,339	2,471,430	19,870,378	5,544,378	5,848,119	6,300,576	953	8,953	41,045,717

(b) Geographical location analysis is not applicable because all credit exposures comprise domestic exposures.

5.0 CREDIT RISK (CONTINUED)

5.2 Distribution of Credit Exposures (continued)

(c) Maturity analysis based on the residual contractual maturity

2018	Within one year RM'000	One to three years RM'000	Three to five years RM'000	More than five years RM'000	Non-interest/ Non-profit bearing RM'000	Total RM'000
On-balance sheet exposure:						
Cash and short-term funds	116,537	-	-	-	70,255	186,792
Derivatives financial instruments	356,083	856	-	5,139	-	362,078
Financial asset at FVOCI	518,227	475,208	676,771	806,079	-	2,476,285
Amount due from counterparties	6,004,319	8,420,632	5,345,008	635,032	(67)	20,404,924 ^{^1}
Islamic financing debts	1,835,052	4,269,044	3,926,484	-	(627)	10,029,953 ^{^2}
Mortgage assets:						
– Conventional	893,068	1,150,650	1,007,432	3,013,592	(720,032)	5,344,710 ^{^3}
– Islamic	732,631	986,926	944,979	3,979,811	(728,820)	5,915,527 ^{^4}
Hire purchase assets:						
– Conventional	2	-	-	-	(2)	- ^{^5}
– Islamic	795	-	-	-	(14)	781 ^{^6}
Other assets	633	843	795	1,761	71,974	76,006
Total on-balance sheet exposure	10,457,347	15,304,159	11,901,469	8,441,414	(1,307,333)	44,797,056
Off-balance sheet exposure:						
IRS/IPRS	-	38,456	20,750	30,739	-	89,945
CCS/ICCS	375,388	205,388	-	-	-	580,776
Total	10,832,735	15,548,003	11,922,219	8,472,153	(1,307,333)	45,467,777

^{^1} Includes impairment losses on amount due to counterparties of RM66,581.

^{^2} Includes impairment losses on Islamic financing assets of RM627,130.

^{^3} Includes impairment losses on conventional mortgage assets of RM28,210,459.

^{^4} Includes impairment losses on Islamic mortgage assets of RM24,261,116.

^{^5} Includes impairment losses on conventional hire purchase assets of RM2,059.

^{^6} Includes impairment losses on Islamic hire purchase assets of RM14,937.

5.0 CREDIT RISK (CONTINUED)

5.2 Distribution of Credit Exposures (continued)

(c) Maturity analysis based on the residual contractual maturity (continued)

2017	Within one year RM'000	One to three years RM'000	Three to five years RM'000	More than five years RM'000	Non-interest/ Non-profit bearing RM'000	Total RM'000
On-balance sheet exposure:						
Cash and short-term funds	486,912	-	-	-	47,679	534,591
Derivatives financial instruments	157,197	301,863	-	4,080	-	466,339
AFS investment securities	726,423	503,885	416,171	824,951	-	2,471,430
Amount due from counterparties	6,285,506	7,604,833	5,345,007	638,039	-	19,870,378
Islamic financing debts	1,730,200	2,574,231	1,239,947	-	-	5,544,378
Mortgage assets:						
- Conventional	933,922	1,204,460	1,114,465	3,449,082	(853,810)	5,848,119 ^{^1}
- Islamic	712,367	964,148	967,336	4,475,152	(818,427)	6,300,576 ^{^2}
Hire purchase assets:						
- Conventional	2	-	-	-	(2)	- ^{^3}
- Islamic	970	45	-	-	(62)	953 ^{^4}
Other assets	1,227	1,338	840	1,963	32,533	37,901
Total on-balance sheet exposure	11,034,762	13,154,803	9,083,766	9,393,267	(1,592,089)	41,074,473
Off-balance sheet exposure:						
IRS/IPRS	5,593	21,200	21,800	39,800	-	88,393
CCS/ICCS	221,595	542,229	-	-	-	763,824
Total	11,261,914	13,718,232	9,105,566	9,433,067	(1,592,089)	41,926,690

^{^1} Includes impairment losses on conventional mortgage assets of RM37,970,725

^{^2} Includes impairment losses on Islamic mortgage assets of RM30,196,660

^{^3} Includes impairment losses on conventional hire purchase assets of RM2,059

^{^4} Includes impairment losses on Islamic hire purchase assets of RM62,050.

5.0 CREDIT RISK (CONTINUED)

5.3 Off-Balance Sheet Exposure and Counterparty Credit Risk (CCR)

CCR on derivative financial instruments is the risk that the Company's counterparty in a foreign exchange, interest rate, commodity, equity, and option or credit derivative contract defaults prior to maturity date of the contract and that the Company, at the relevant time has a claim on the counterparty. Derivative financial instruments restricted to interest rate and foreign exchange related contracts are entered into solely for hedging purposes.

Off-Balance Sheet Exposures	Principal Amount RM'000	Positive Fair Value of Derivatives Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
2018				
Derivatives Financial Instruments	7,873,652	362,078	670,721	134,144
Interest/profit rate related contracts				
– 1 year to less than 5 years	3,315,000	856	59,206	11,841
– 5 years and above	160,000	5,139	30,739	6,148
Islamic/Cross currency related contracts				
– Less than 1 year	1,725,000	319,325	375,387	75,077
– 1 year to less than 5 years	2,673,652	36,758	205,388	41,078
2017				
Derivatives Financial Instruments	9,299,196	466,339	852,217	260,302
Interest/profit rate related contracts				
– Less than 1 year	1,525,000	2,343	5,593	1,343
– 1 year to less than 5 years	1,605,000	–	43,000	8,960
– 5 years and above	270,000	7,100	39,800	9,610
Islamic/Cross currency related contracts				
– Less than 1 year	2,630,696	157,082	221,595	47,519
– 1 year to less than 5 years	3,268,500	299,814	542,229	192,870

5.0 CREDIT RISK (CONTINUED)

5.4 Credit Rating

5.4.1 Assignment of risk weights under the Standardised Approach

Under the Standardised Approach, the Company uses the credit rating assigned by the credit rating agencies in its calculation of credit risk weighted assets for PWR, investment, IRS and CCS assets in accordance with BNM RWCAF. Rating agencies or External Credit Assessment Institutions ("ECAI") recognised by BNM are as follows:

- (i) Standard & Poor's Rating Services (S&P);
- (ii) Moody's Investors Service (Moody's);
- (iii) Fitch Ratings (Fitch);
- (iv) Rating Agency Malaysia Berhad (RAM);
- (v) Malaysian Rating Corporation Berhad (MARC); and
- (vi) Rating & Investment Information, Inc (R&I).

In accordance with BNM's RWCAF guideline, where the exposure is rated by more than one external rating agency, risk-weight shall be determined based on the second highest rating. For the Company, if exposure is denominated in local currency and where the exposure is rated by more than one local rating agency, risk weight is determined based on the second highest local rating. The counterparty shall be deemed as unrated when an exposure is not rated by the rating agency whilst the exposure which is secured by an explicit guarantee issued by an eligible or rated guarantor, rating similar to that of the guarantor is assigned. For the purpose of Cagamas internal rating, the lowest rating is adopted in cases where the counterparty is rated by more than one external rating agency.

The following table presents the credit exposures of the Company after the effect of credit risk mitigation by risk-weights:

Risk-Weights	Sovereign & Central Banks RM'000	FI & DFI* RM'000	Corporate & Leasing Companies RM'000	Other Assets RM'000	Total Risk Weighted Assets RM'000
2018					
0%	1,384,619	-	-	-	-
10%	-	-	-	-	-
20%	-	27,787,664	943,246	-	5,746,090
50%	-	3,762,083	254,076	-	2,008,171
100%	-	-	-	75,070	75,070
Total	1,384,619	31,549,747	1,197,322	75,070	7,829,331
Average Risk Weights	0.0%	23.6%	26.5%	100.0%	22.9%
2017					
0%	1,332,946	-	-	2	-
10%	-	-	-	-	-
20%	-	10,253,197	823,033	-	2,215,245
50%	-	15,010,865	2,320,615	-	8,665,742
100%	-	-	-	28,417	28,417
Total	1,332,946	25,264,062	3,143,648	28,419	10,909,404
Average Risk Weights	0.0%	37.8%	42.1%	100.0%	36.6%

* FI – Financial Institutions

DFI – Development Financial Institutions

5.0 CREDIT RISK (CONTINUED)

5.4 Credit Rating (continued)

5.4.1 Assignment of risk weights under the Standardised Approach (continued)

The following table is a summary of the risk-weight mapping matrix and the allocation of risk-weights under the Standardised Approach:

Exposure class:	Rating of Counterparties by Approved ECAIs				
	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
Moody's	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to C	Unrated
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
R&I Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-balance sheet exposure					
2018					
Sovereign/Central Banks#	1,384,619	-	-	-	-
FI and DFI	27,787,664	3,762,083	-	-	-
Corporate and Leasing Companies	943,246	254,076	-	-	-
Other Assets	-	-	-	-	75,070
Total	30,115,529	4,016,159	-	-	75,070
2017					
Sovereign/Central Banks#	1,332,946	-	-	-	-
FI and DFI	10,253,197	10,572,995	4,437,870	-	-
Corporate and Leasing Companies	823,033	2,320,615	-	-	-
Other Assets	-	-	-	-	28,419
Total	12,409,176	12,893,610	4,437,870	-	28,419

Under the BNM RWCAF, exposures to and/or guaranteed by the Federal Government of Malaysia are accorded a preferential sovereign risk weight of 0%.

5.0 CREDIT RISK (CONTINUED)

5.4 Credit Rating (continued)

5.4.2 Assignment of risk-weights under the Advanced Internal Rating Based (AIRB) Approach

The Company adopts the AIRB approach for its PWOR exposure which primarily consists of mortgage loans and hire purchase loans using 3 key parameters i.e. Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) to quantify credit risk.

The risk estimates are developed based on internal historical data wherein study on the historical behaviour of the portfolio forms the basis for the computation of PD and LGD. EAD is the exposure when default occurs.

Disclosure on exposure by PD range:-

	EAD RM'000	LGD %	Exposure Weighted Average RW %	RWA RM'000
2018				
<u>Mortgage assets</u>				
PD range: up to 0.5%	-	-	-	-
>0.5% to 3%	12,601,597	32.08%	27.09%	3,414,251
>3% to <100%	-	-	-	-
100%	107,491	32.08%	398.71%	428,576
<u>Hire purchase assets</u>				
PD range: up to 0.5%	-	-	-	-
>0.5% to 3%	743	32.08%	27.09%	201
>3% to <100%	-	-	-	-
100%	55	32.08%	398.71%	219
Total	12,709,886			3,843,247
2017				
<u>Mortgage assets</u>				
PD range: up to 0.5%	-	-	-	-
>0.5% to 3%	13,720,972	32.08%	27.09%	3,717,532
>3% to <100%	-	-	-	-
100%	99,962	32.08%	398.71%	398,559
<u>Hire purchase assets</u>				
PD range: up to 0.5%	-	-	-	-
>0.5% to 3%	956	32.08%	27.09%	259
>3% to <100%	-	-	-	-
100%	64	32.08%	398.71%	255
Total	13,821,954			4,116,605

5.0 CREDIT RISK (CONTINUED)**5.5 Past Due and Impaired Loans**

Refer to Note 2.1(a) to Note 2.9 of the Financial Statements for the accounting policies and accounting estimates on impairment assessment for loans, advances and financing. The disclosures on reconciliation of impairment/allowance can be found in Note 3 of the Financial Statements. This credit impairment policy is applicable to the Group.

(a) The following table is a summary of the impairment allowance by economic purposes:

	Neither more than 90 days past due nor individually impaired RM'000	More than 90 days past due but not individually impaired RM'000	Total RM'000	Impairment allowance RM'000	Total carrying value RM'000
2018					
Purchase of mortgage assets	41,092,628	107,491	41,200,119	53,142	41,146,977
Purchase of motor vehicles/equipment	530,011	57	530,068	40	530,028
Personal use	18,890	-	18,890	-	18,890
	41,641,529	107,548	41,749,077	53,182	41,695,895
2017					
Purchase of mortgage assets	37,097,391	99,962	37,197,354	68,168	37,129,186
Purchase of motor vehicles/equipment	287,257	64	287,320	64	287,256
Personal use	147,962	-	147,962	-	147,962
	37,532,610	100,026	37,632,636	68,232	37,564,404

5.0 CREDIT RISK (CONTINUED)

5.5 Past Due and Impaired Loans (continued)

(b) The following table is a summary of the impairment allowance by product-type:

	Neither more than 90 days past due nor individually impaired RM'000	More than 90 days past due but not individually impaired RM'000	Total RM'000	Impairment allowance RM'000	Total carrying value RM'000
2018					
Amount due from counterparties	20,404,991	-	20,404,991	67	20,404,924
Islamic financing assets	10,030,580	-	10,030,580	627	10,029,953
Mortgage assets					
– Conventional	5,312,311	60,609	5,372,920	28,210	5,344,710
– Islamic	5,892,906	46,882	5,939,788	24,261	5,915,527
Hire purchase assets					
– Conventional	-	2	2	2	-
– Islamic	741	55	796	15	781
	41,641,529	107,548	41,749,077	53,182	41,695,895
2017					
Amount due from counterparties	19,870,378	-	19,870,378	-	19,870,378
Islamic financing assets	5,544,378	-	5,544,378	-	5,544,378
Mortgage assets					
– Conventional	5,832,022	54,068	5,886,090	37,971	5,848,119
– Islamic	6,284,879	45,894	6,330,773	30,197	6,300,576
Hire purchase assets					
– Conventional	-	2	2	2	-
– Islamic	953	62	1,015	62	953
	37,532,610	100,026	37,632,636	68,232	37,564,404

6.0 MARKET & LIQUIDITY RISK

Market risk is the potential loss arising from adverse movement of market prices and rates. Market risk exposure is limited to interest rate and foreign exchange as the Company is not engaged in any equity or commodity trading activities. The Company is not exposed to interest rate and foreign exchange risk arising from trading activities as it is prohibited.

Liquidity risk arises when the Company does not have sufficient funds to meet its financial obligation when they fall due.

Market and Liquidity Risk Management Oversight and Organisation

The ALCO is the senior management committee responsible for the Company's management of market and liquidity risk activities including the setting of risk limits. The ALCO which is chaired by the CEO reviews the Company's market and liquidity risk policies, funding strategy, align market and liquidity risk management with business strategies and review performance of investment portfolio, hedged positions, risk limits/compliance and stress test results.

RMD supports ALCO at the working level and is an independent risk control unit responsible for developing the market and liquidity risk policy and ensuring adequate risk control oversight.

Market and Liquidity Risk Management Approach

The Company manages market and liquidity risks by imposing threshold limits which are approved by management within the parameters approved by the Board based on a risk-return relationship.

Further, the Company also adheres to a strict match-funding policy where all asset purchases are funded by bonds of closely matched size as well as duration and is self-sufficient in terms of cash flow. Forward looking liquidity mechanism is in place to promote efficient and effective cash flow management while avoiding excessive concentration of funding. The Company plans its cash flow and monitors closely every business transaction to ensure that available funds are sufficient to meet business requirements at all times. Reserve liquidity which comprises marketable debt securities are also set aside to meet any unexpected shortfall in cash flow or adverse economic conditions in the financial market.

Derivatives instruments such as interest rate swaps and cross currency swaps are used to manage and hedge market risk exposures against fluctuation in interest rates and foreign exchange. Liquidity management processes involve regular monitoring against liquidity risk limits, and establishing contingency funding plans. These processes are subject to regular review. The Company also monitors liquidity based on Basel III liquidity coverage ratio and net stable funding ratio.

6.0 MARKET & LIQUIDITY RISK**6.1 Management of Interest Rate Risk in the Banking Book**

The interest rate risk in the banking book is monitored on a monthly basis and exposure is minimal given the match funding approach adopted by the Company for its assets and liabilities. The impact on net interest income is simulated and the following table summarises the impact arising from a 100 basis points parallel shift.

Type of Currency	Impact on Position as at 31 December 2018	
	(-100 basis points) Parallel Shift	(+100 basis points) Parallel Shift
	Increase/(Decline) in Net Interest Income RM'000	Increase/(Decline) in Net Interest Income RM'000
MYR	(3,685)	3,691

Type of Currency	Impact on Position as at 31 December 2017	
	(-100 basis points) Parallel Shift	(+100 basis points) Parallel Shift
	Increase/(Decline) in Net Interest Income RM'000	Increase/(Decline) in Net Interest Income RM'000
MYR	(1,162)	1,169

6.2 Management of Non-Traded Foreign Exchange Risk

The Company is exposed to foreign exchange risk from Treasury funding activities whose functional currencies are not in Ringgit Malaysia. Foreign currency risk is managed/hedged by entering into CCS/ICCS with selected counterparties at the outset and concurrent with bond issuance and asset purchase to ensure that there is no timing mismatches between cash flows from the underlying assets, obligations on the foreign currency bonds as well as the hedge instrument.

7.0 OPERATIONAL RISK

Operational risk is the potential loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk associated with the Company's business practices or market conduct. It also includes the risk of failing to comply with applicable laws and regulations.

Operational Risk Management Oversight and Organisation

It is the MEC that governs operational risk within the Company. The Committee meets at least on a quarterly basis and discusses operational risk related issues.

The RMD established the Company's Operational Risk Management (ORM) Framework which clearly defines the Company's approach to operational risk management that includes the Company Risk & Control Self-Assessment/Operational Risk Policy and Standards ("The Policy"). The Operational Risk Section of RMD provides independent oversight of operational risk monitoring and control. Legal Risk is managed by the Legal Department and where necessary, in consultation with external legal counsel.

Operational Risk Management Approach

The Operational Risk Management policy codifies the core governing principles for operational risk management and provides a consistent, value added framework for assessing, communicating operational risk and the overall effectiveness of the internal control environment.

Business/Support Units constitute an integral part of the operational risk management framework and are primarily responsible for the day-to-day management of operational risk. These units are responsible for establishing and maintaining their respective operational manuals and ensuring that activities undertaken comply with the Group's operational risk management framework. Each business/support unit undertakes self-assessment of the risk and control environment to identify, assess and manage its operational risks. Operational risk losses and incidents are reported to senior management and BRC through RMD who provides independent assessment.

The Management places a very high value on maintaining an effective control environment to mitigate operational risk. Therefore, a number of tools have been put in place to mitigate this risk. These tools range from:

- Risk & Control Self-Assessment ("RCSA") which is a process of continual assessment of inherent operational risks and controls to identify control gaps and to develop action plans to close the gaps. It is a risk profiling tool which facilitates effective operational risk management for the Company. The RCSA is signed-off by the respective department senior management/head;
- Key risk indicators as early warning signals of increasing risk and/or control failures by flagging up given frequencies of events as a mechanism for continuous risk assessment/monitoring;
- Incident management which is a structured process and system to identify and focus attention on operational 'hotspots' and facilitates the minimisation of risk impact; and
- Operational loss reporting.

7.0 OPERATIONAL RISK (CONTINUED)**Operational Risk Management Approach (continued)**

In order to ensure uninterrupted services and to safeguard human life and Cagamas' assets during disaster, Cagamas has put in place a well defined Business Continuity Management (BCM) for its various critical functions. BCM comprises of Business Continuity Plan (BCP) and Disaster Recovery (DR), in the event of business disruption/disaster and consequent BCP invocation. The resilience of these plans under different scenarios are being tested on an ongoing basis through regular DR exercises.

The Company uses Basic Indicator approach for calculating Operational Risk Capital.

8.0 SHARIAH GOVERNANCE DISCLOSURE

Cagamas consults and obtains endorsements/clearance from an independent Shariah Advisor for its Islamic products and transactions to ensure compliance with Shariah requirements. In addition, Cagamas obtains the approval of the Shariah Advisory Councils of Bank Negara Malaysia and Securities Commission Malaysia for its Islamic products, if required.

Periodic Shariah reviews/audit are performed to verify that Islamic products and operations of Cagamas are in compliance with the decisions endorsed by the independent Shariah Advisor and the Joint Shariah Advisors for any sukuk programmes, where applicable. Any incidences of Shariah non-compliance are reported to the independent Shariah Advisor, the Group Board Audit Committee, BRC and Board. Remedial actions are for the endorsement of the independent Shariah Advisor and for notification to the BRC or the Board.

During the financial period under review, there is no Shariah non-compliance event being reported.

Form of Proxy

Number of Shares

I/We _____
(FULL NAME IN BLOCK CAPITALS)

of _____
(FULL ADDRESS)

being a member/members of CAGAMAS HOLDINGS BERHAD, hereby appoint the Chairman of the meeting or

(FULL NAME IN BLOCK CAPITALS)

of _____
(FULL ADDRESS)

or failing him/her _____
(FULL NAME IN BLOCK CAPITALS)

of _____
(FULL ADDRESS)

as my/our proxy to vote for me/us on my/our behalf at the Twelfth (12th) Annual General Meeting of the Company, to be held at Meeting Room 1 & 2, Level 4, Lanai Kijang, Bank Negara Malaysia, No. 2, Jalan Berjasa, 50480 Kuala Lumpur on Friday, 3 May 2019 at 11.00 a.m. and at any adjournment thereof.

My/Our proxy is to vote either on a show of hands or on a poll as indicated below with an "X":

No.	Resolutions	For	Against
1.	Ordinary Resolutions Payment of Directors' Fees: (a) Directors' Fees for the financial year ended 31 December 2018 (b) Directors' Fees from 1 January 2019 to 13 th AGM	(Ordinary Resolution No. 1) (Ordinary Resolution No. 2)	
2.	Payment of Directors' benefits	(Ordinary Resolution No. 3)	
3.	Re-election of Directors under Articles 19.13 and 19.14 (a) Tan Sri Dato' Sri Tay Ah Lek (b) Datuk Abdul Farid bin Alias	(Ordinary Resolution No. 4) (Ordinary Resolution No. 5)	
4.	Re-election of Directors under Article 19.10 (a) Dato' Bakarudin bin Ishak (b) Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani	(Ordinary Resolution No. 6) (Ordinary Resolution No. 7)	
5.	Appointment of Auditors	(Ordinary Resolution No. 8)	
6.	As Special Business Datuk George Ratilal, having served for more than a cumulative term of 9 years, to retain his status as Independent Director	(Ordinary Resolution No. 9)	
7.	Special Resolution Proposed amendment to the Constitution of Cagamas Holdings Berhad	(Special Resolution No. 1)	

Dated this _____ day of _____ 2019.

Signature of Member(s)

Notes

1. A member entitled to attend and vote at the Meeting may appoint not more than two (2) proxies to attend and vote on his behalf. Where a member appoints two (2) proxies, the appointment shall be invalid unless the proportion of the shareholdings to be represented by each proxy is specified. A proxy may, but need not be a member of the Company.
2. In the case where a member is a corporation, this Form of Proxy must be executed under its common seal or under the hand of its attorney.
3. All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at Level 32, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting as the case may be.

Fold

STAMP

Company Secretary
CAGAMAS HOLDINGS BERHAD
Level 32, The Gardens North Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur

Fold

Cagamas Holdings Berhad (762047-P)

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