



Cagamas Berhad

National Mortgage Corporation of Malaysia

3rd IILM ROUNDTABLE ON LIQUIDITY MANAGEMENT

Jakarta, Indonesia

19 – 20 May 2016

Credit vs. Liquidity in Distressed Markets The Cagamas Story

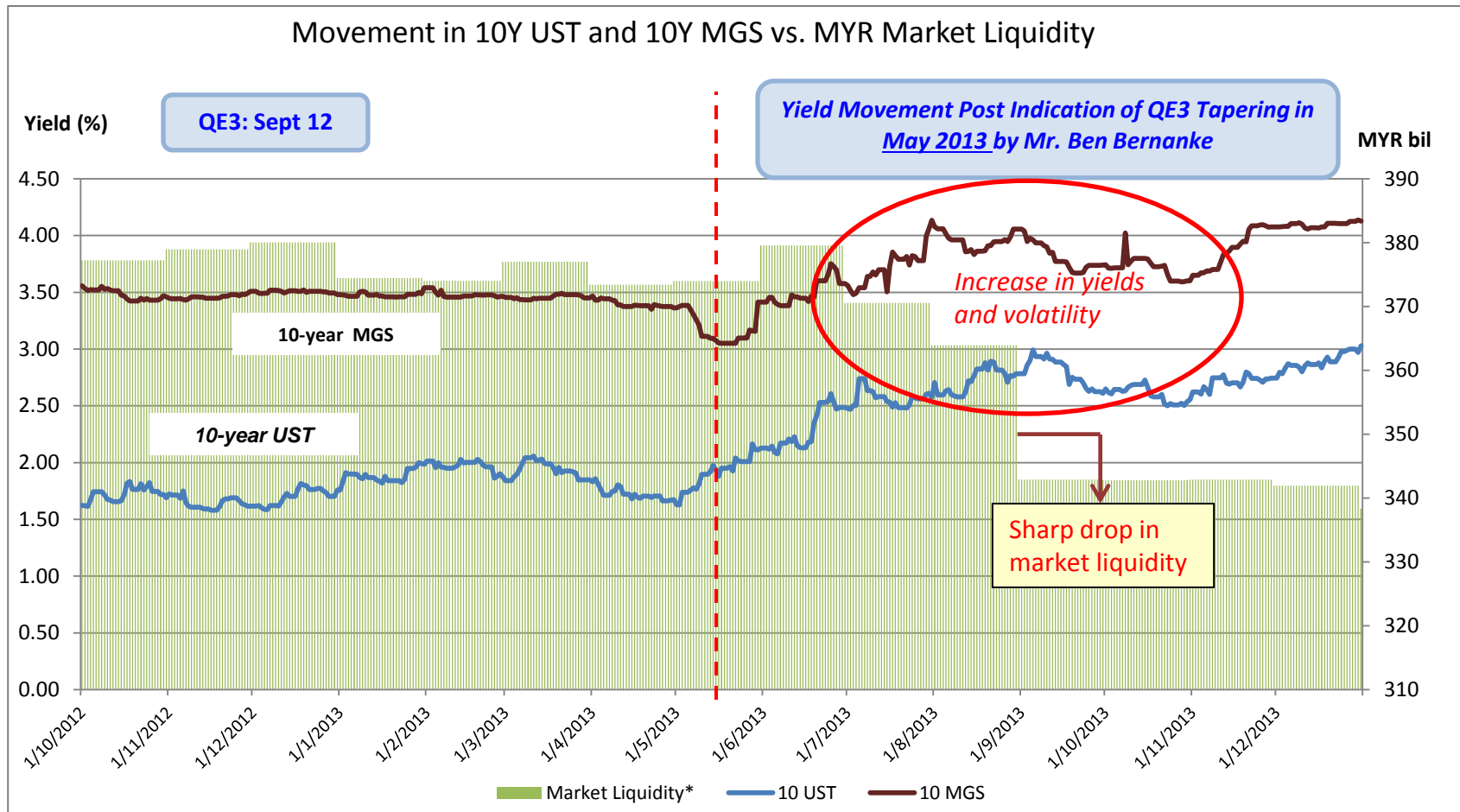
*Datuk Chung Chee Leong
President/Chief Executive Officer*

19 May 2016

Entity Name	Cagamas Berhad
Shareholders	Bank Negara Malaysia (20%) Commercial and Investment Banks (80%)
Credit Rating	A3 Stable (Moody's)
Date of Incorporation	2 December 1986
Objectives	<ul style="list-style-type: none">▪ Established by Bank Negara Malaysia to support the national agenda of increasing home ownership and promoting the development of Malaysia's capital markets▪ Development and promotion of Islamic finance within Malaysia
Business Model	<ul style="list-style-type: none">▪ Through the issuance of conventional and Islamic securities, Cagamas funds the purchase of housing loans and house financings through its Purchase With Recourse (PWR) and Purchase Without Recourse (PWOR) schemes.▪ By doing this, Cagamas is able to provide liquidity to financial institutions at a competitive cost, encouraging them to provide additional housing loans and house financings to new applicants at an affordable price.▪ The PWR and PWOR schemes have now been expanded to include other loans and financings such as SME loans, infrastructure financing and industrial hire purchase / leasing receivables.



Distressed market condition in 2013 - Impact on QE3 Tapering



- **Increased volatilities** across financial markets caused by concerns over reversal fund flows and possible end to low interest rate environment
- **Higher liquidity premium** demand from investors to buffer for volatility

* Outstanding Liquidity placed with Central Bank

- Indication by the Federal Reserve to start QE3 tapering in May 2013 has resulted in an increase in volatility of the underlying benchmark curve from 5% to 35%.
- Correspondingly, total liquidity placed with BNM has decreased by MYR40 billion, from MYR380 billion before indication of tapering in May 2013 to MYR340 billion in Dec 2013 which evidenced reversal of fund flow out of the country as investors braced for rising interest rate environment.
- In Oct 2013, Cagamas successfully raised MYR6.4 billion in 3 weeks in multiple tenures despite investors' demand for higher liquidity premium amid very challenging environment.
- Increased volatility in the underlying benchmark (MGS) has resulted in the Company to issue at higher credit spread against the underlying benchmark in the primary issuance. On a 3-year basis, the credit spread on MGS increased from 20 bps in May 2013 to 40 bps in Oct 2013.
- Lesson learnt: Over-reliance on single benchmark for pricing will increase the effect of price volatility of the underlying benchmark to the credit spread; hence the decision to diversify funding sources and reach out to alternative liquidity pools.



Objectives:

- Widening the Company's investors base and network
- Diversify funding sources
- Achieve competitively priced funding from international liquidity pool
- Funding of potential purchase of non MYR assets
- Developmental role in deepening and broadening the Malaysian and international debt capital market
- Reduce over reliance on single benchmark for pricing
- Reduce overcrowding effect in domestic market

Programme Features:

	Multicurrency Medium Term Note Programme	
Type	Conventional	Islamic
Programme Size	USD 2.5 billion	USD 2.5 billion
Tenor	Perpetual	
Rating	A3 by Moody's Investors Service, Inc.	
Issue format	Regulation S	
Governing laws	English Law	



2014 - Cagamas total Foreign Currency Issuances – MYR2.9 billion



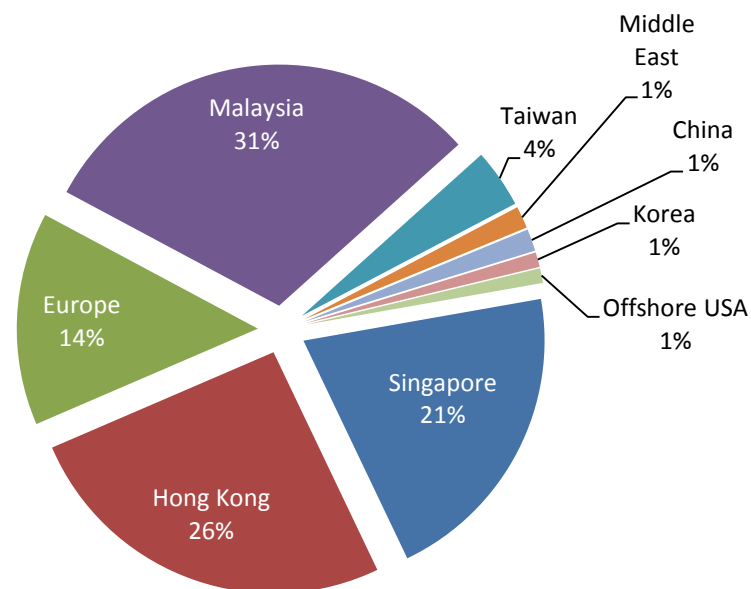
Year	Date	Issuance	Tenure
2014	22 Sep 2014	CNH 1.5bln	3 years
	5 Nov 2014	HKD 1.0bln	3.5 years
	10 Dec 2014	USD 500mln	5 years

Investor's Profile based on Outstanding Debt Securities

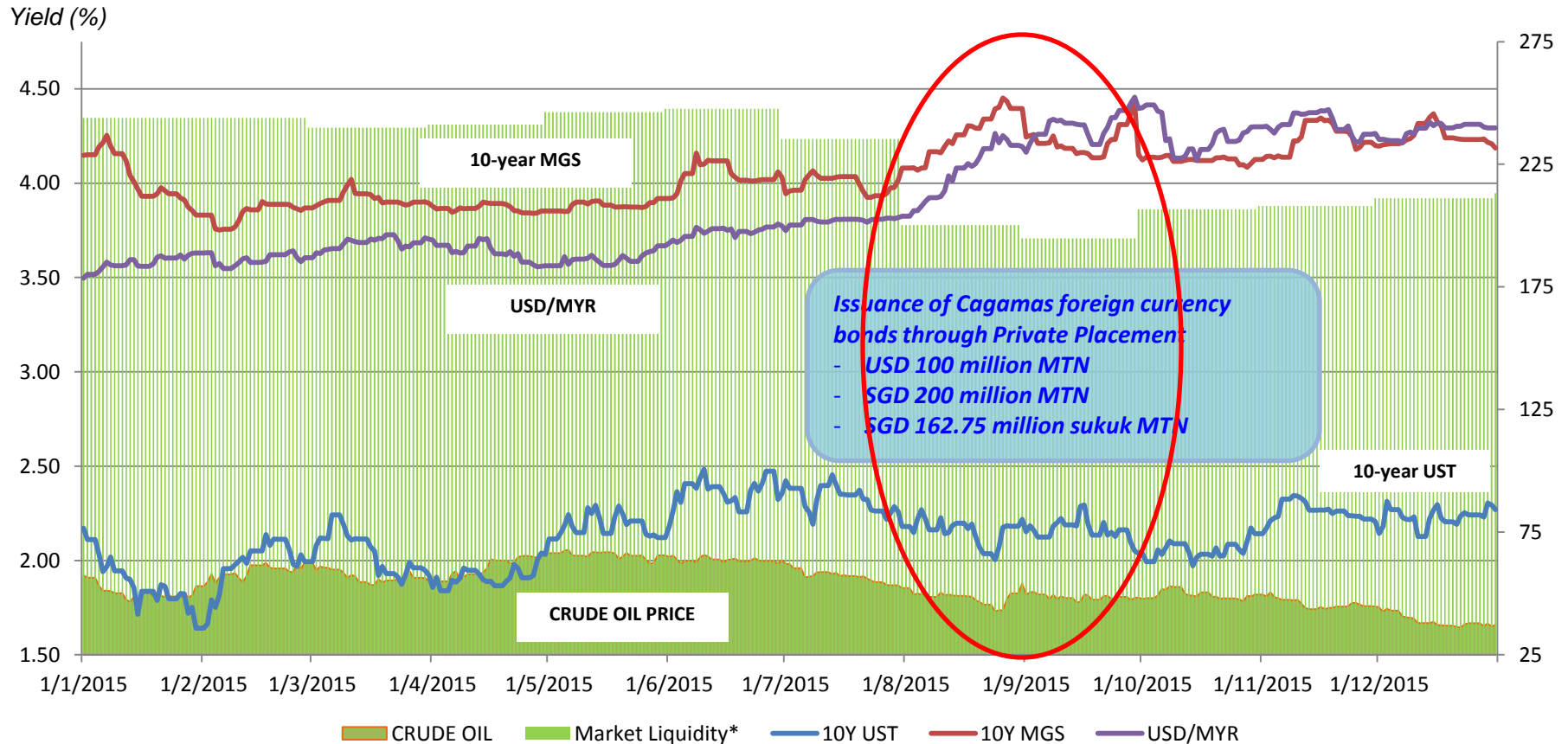
	2013	2014
Financial Institutions	36%	33%
Insurance Companies	17%	16%
Provident/Pension Funds	32%	28%
Others*	14%	13%
Non-Resident	1%	10%

* Others – Local Corporations, Government-Linked Companies and Trust Funds

Investor's Profile based on number of investors



2015 – Another STORM, Less Impact



- Continuous volatility in crude oil prices especially in the second half of the year has adversely impacted the local currency against the USD
- Weakening of MYR has caused sell-off in the sovereign – evidenced in the spike of the 10 year MGS as shown in the graph above

* Outstanding Liquidity placed with Central Bank



- The drop in crude oil price since late 2014 together with structural strengthening of the US Dollar contributed to the deep depreciation in MYR. This situation has contributed to the flight of foreign funds which in turn has negatively affected the local bond market. Total liquidity placed with Central Bank decreased by MYR50 billion, from MYR245 billion as at January 2015 to MYR195 billion as at August 2015.
- MYR was the worst performer among its peers as it has depreciated by 25% since August 2014 from MYR3.15 to MYR4.20 against the USD. Consequently, the yield of 10-year MGS increased 63 bps from the low of 3.72% in February 2014 to 4.35% in August 2015.
- Cagamas was able to achieve favourable credit spread against local currency bond through issuance of multi-currency EMTN despite very challenging operating environment worsened by negative headlines on the country.
- Low volatility/price stability can be an effective counter active measure to credit and liquidity in distressed market.



2015 - Cagamas total Foreign Currency Issuances – MYR1.5 billion

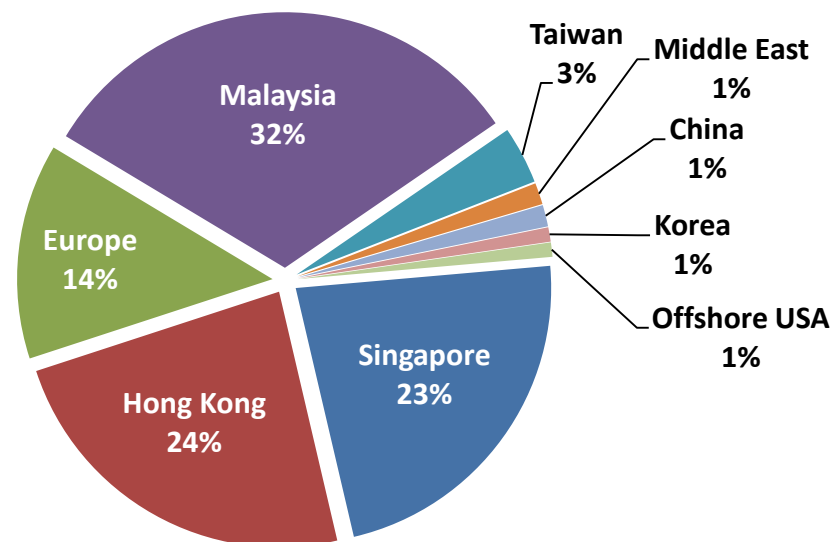


Year	Date	Issuance	Tenure
2015	24 Jun 2015	USD 100 mil	3 years
	30 Jul 2015	SGD 100 mil	3 years
	25 Sep 2015	SGD162.75 mil*	1 year
	27 Nov 2015	SGD 100 mil	2 years

Investor's Profile based on Outstanding Debt Securities

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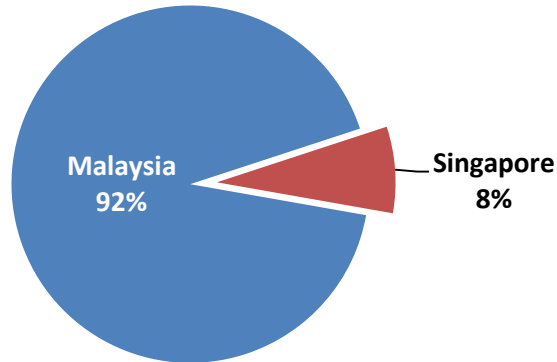
Investor's Profile based on number of investors



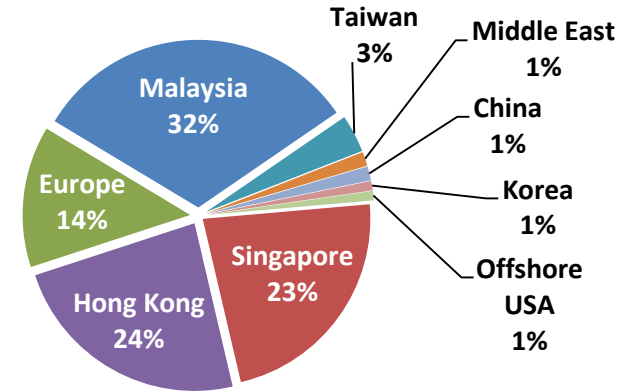
Investor's profile based on total investors

Before the establishment of EMTN

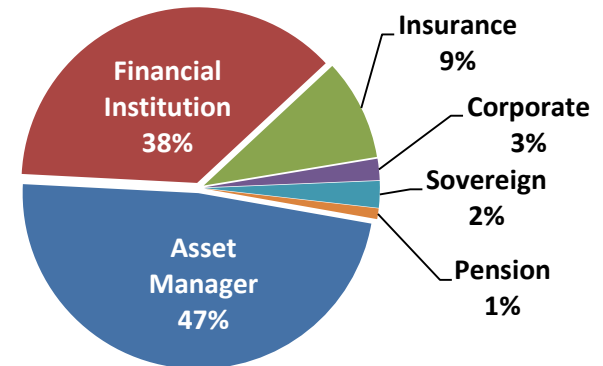
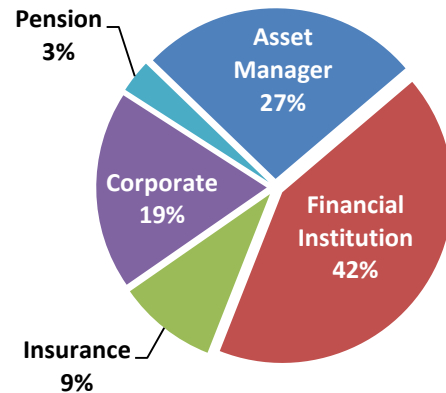
By Country



After the establishment of EMTN



By Type



The End

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