

Cagamas Berhad

National Mortgage Corporation of Malaysia

Structuring Sukuk & Islamic Securitisation

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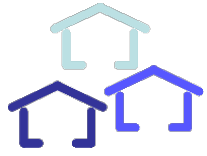
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Overview of Cagamas' Sukuk Journey



Establishment of Cagamas Berhad



The market situation in the mid-1980's:-

Funding mismatch in financial institutions resulting in liquidity crunch

Financial institutions were not lending to homebuyers despite their demand

Limited funding source in the market – no bond market



There was a need in the market for an institution to:-

- Function as intermediary between primary lenders and investors of long term funds; and
- Take on role of credible issuer of mortgage securities



Incorporation of Cagamas

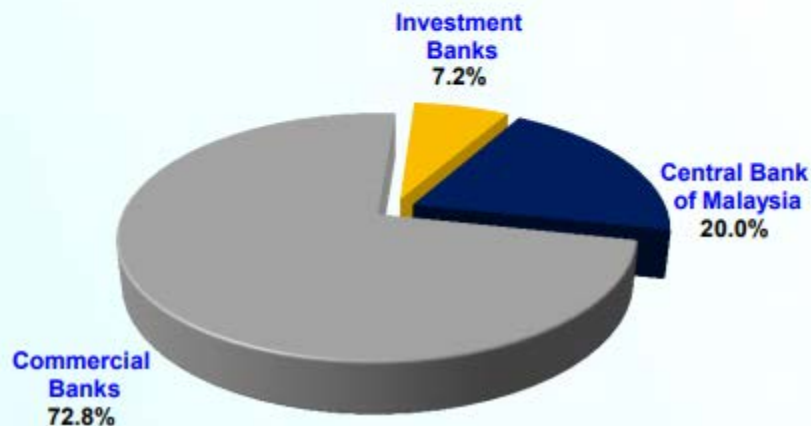


Establishment of Cagamas

- Commenced operations in 1987 as the National Mortgage Corporation
- To promote the broader spread of house ownership and growth of the secondary mortgage market in Malaysia



Ownership Structure





Cagamas At A Glance

Background



Entity Name	Cagamas
Shareholders	Cagamas Holdings Berhad (100%), which is 20% owned by Bank Negara Malaysia (BNM), and 80% by commercial and investment banks
Credit Rating	A3 Stable (Moody's), AAA (RAM and MARC)
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▪ Based on this business model, 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 World Bank has regarded Cagamas Berhad as the largest and most successful liquidity facility in its publication entitled "Housing Finance Policy in Emerging Markets" in 2009



Regulatory Environment



Governed by the following regulations under the respective authorities:-



Bank Negara Malaysia

- Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA)



Securities Commission

- Capital Markets and Services Act 2007



Bursa Malaysia

- Electronic Trading Platform



Laws of Malaysia

- Companies Act 2016
- Labuan Companies Act 1990



Global Rating of A3 by Moody's

A3

*HIGH SYSTEMIC SUPPORT
from Government of Malaysia*

STRONG CREDIT PROFILE

- ***Sovereign Equivalent Rating***

- ***Special policy role***

- ✓ *Supporting the national objective to increase home ownership & promote development of Malaysia debt capital market*

- ***Close linkages with BNM and the Government***

- ***High systemic importance in Malaysian financial sectors***

- ✓ *Significant linkage with other FIs and prominent role in the debt capital market*

- ***Strong Capitalisation***

- ***Good Asset Quality***

- ✓ *Above-industry-average*

- ***Stable Profitability***



Role and Impact of Cagamas

Reducing maturity mismatch
Contribute to greater financial stability by reducing the maturity mismatch in banking system

Enhance liquidity
Enhance liquidity to the financial sector including during times of liquidity crunch

Development of Capital Market
Spurring development of Corporate Bonds/ Sukuk market in Malaysia



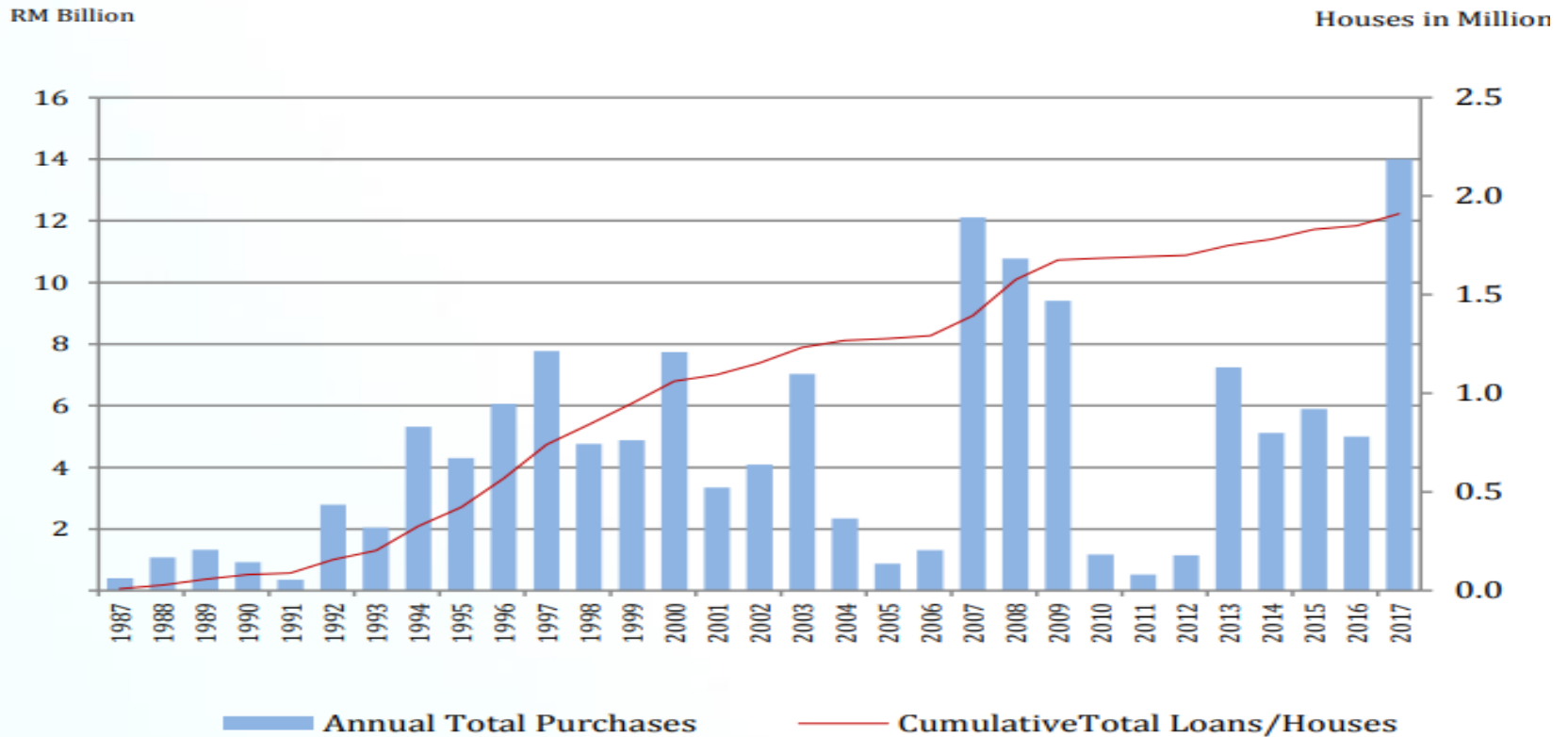
Funds at reasonable cost
Providing FIs with funds at reasonable cost through its ability to generate high investor demand for its issuances

Issuances of quality papers
Enhancing the quality of the Malaysian capital market from issuances of quality credit papers

Innovative Sukuk
Providing innovative sukuk to cater for the growth in Shariah compliant instrument in Malaysia



Promoting Home Ownership & Affordability



- Cumulatively refinance housing loans in the secondary market equivalent to **MYR142 billion** or around **1.9 million houses** .



Liquidity Provider



- Issued **MYR312.1 billion** to the financial market and successfully redeemed **MYR272.5 billion** with no default .



Develop Malaysian Capital Market

Outstanding Bond/Sukuk and Assets

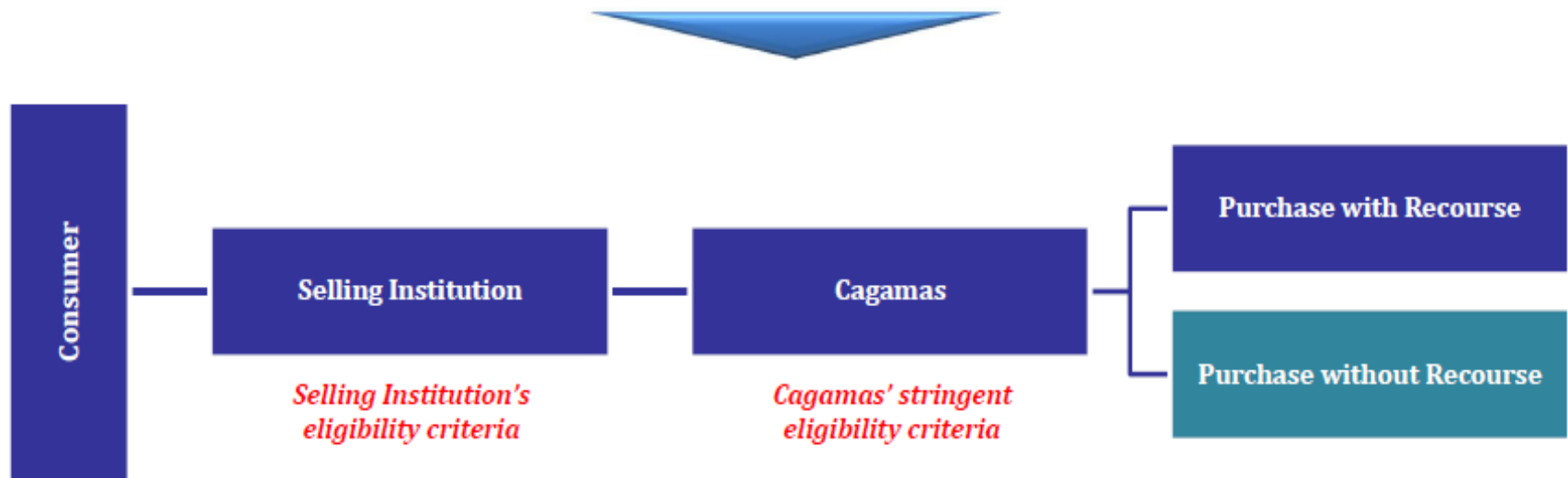
(MYR billion)





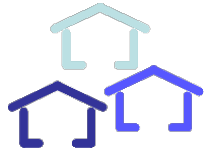
Business Model

Since the commencement of operations in 1987, Cagamas has been a global role model of how emerging countries can establish successful secondary mortgage liquidity facilities



- *The Selling Institution will have applied its own eligibility criteria in granting the loan / financing to the consumer*
- *Cagamas will have applied its own stringent eligibility criteria in determining that the loan / financing to be purchased from the Selling Institution is of sufficient quality to maintain the high quality of Cagamas assets*

The success of Cagamas' business model has been recognised by other countries as well as the World Bank and the Asian Development Bank



Cagamas Islamic Business



Cagamas Islamic Business

- Cagamas Islamic Business started in 1994 to cater to the growing needs of the Islamic financial institutions.
- Cagamas' Islamic products (Purchase Facilities/Islamic Securities) are developed in house by its Islamic Business Department and reviewed by its independent Shariah Advisor.
- Cagamas' Islamic products are developed in accordance to globally accepted Shariah principles and best practices.
- Cagamas' Islamic products are approved by the Shariah Advisory Council:
 - ✓ Bank Negara Malaysia (Purchase Facilities)
 - ✓ Securities Commission (Islamic Securities)

Evolution of Primary Islamic Mortgage Market in Malaysia



Bai Bithaman Ajil

Deferred Payment Sale

- Fixed Rate

Bai Bithaman Ajil

Deferred Payment Sale With Ibra' (Rebate)

- Floating With Cap

Musarakah Mutanaqisah

Diminishing Partnership

- Floating Rate (With/Without Cap)

Ijarah Muntahiah Bittamlik

Lease Ending With Ownership

- Fixed Rate
- Floating Rate (With/Without Cap)

Murabahah Tawarruq

Cost-Plus via Tripartite Sale

- Fixed Rate
- Floating With Cap

Industry Wide

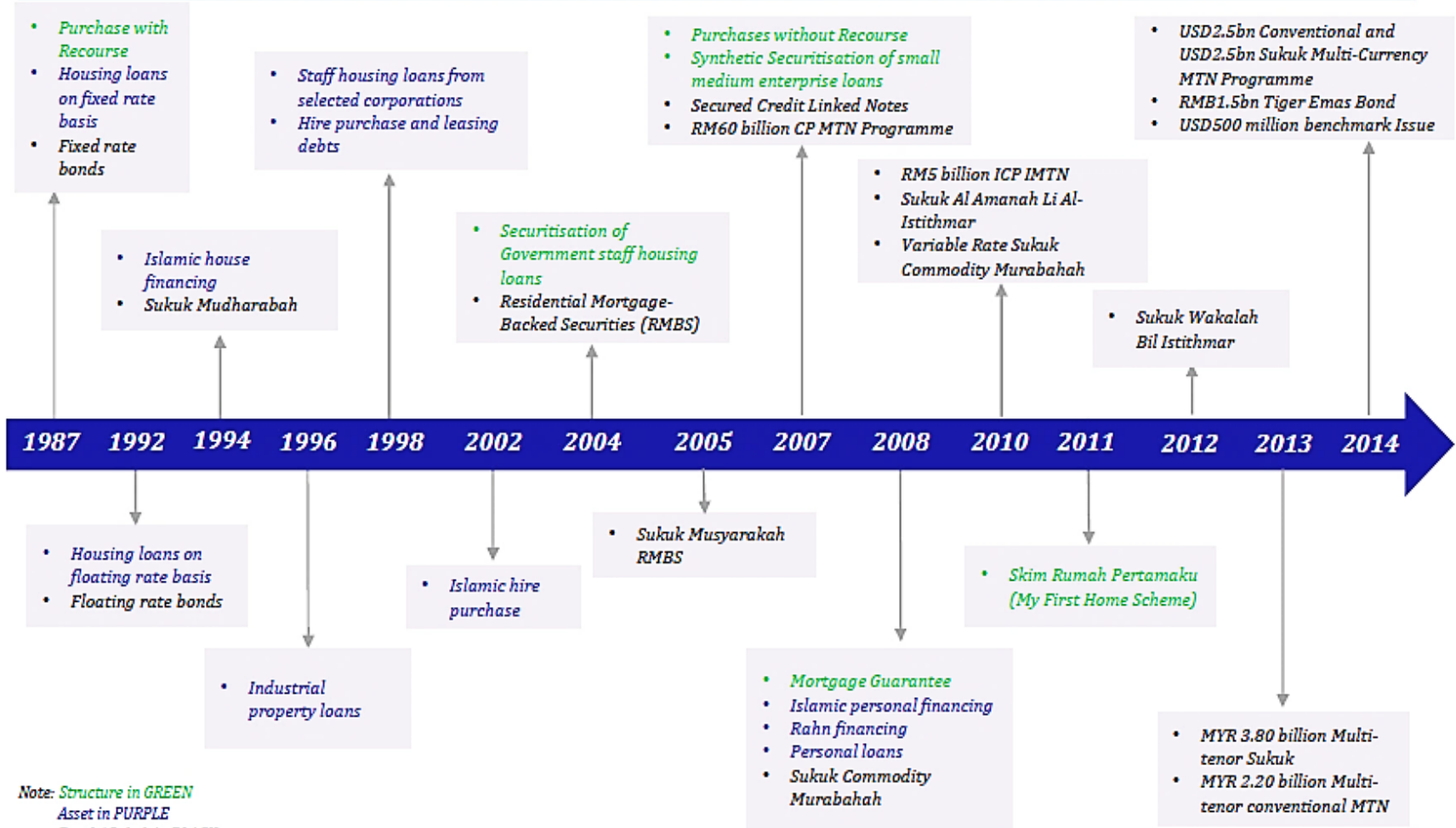


National Mortgage Corporation of Malaysia



Product Innovation Tradition

Cagamas has rich product innovation tradition in its 31 years of operations





Sukuk Programme

Programme	RM20 billion ICP/CP	RM40 billion IMTN/MTN	USD2.5 billion Islamic Multi-currency
Structure	<ol style="list-style-type: none"> 1. Mudharabah 2. Musyarakah 3. Murabahah 4. Ijarah 5. Wakalah Bil Istithmar 	<ol style="list-style-type: none"> 1. Mudharabah 2. Musyarakah 3. Murabahah 4. Ijarah 5. Wakalah Bil Istithmar 6. Istisna 	Sukuk Wakalah
Joint Programme Arrangers	<ol style="list-style-type: none"> 1. CIMB Investment Bank 2. HSBC Amanah 	<ol style="list-style-type: none"> 1. CIMB Investment Bank 2. HSBC Amanah 3. Maybank Investment Bank 	<ol style="list-style-type: none"> 1. CIMB Investment Bank 2. HSBC Amanah
Income Type	Fixed	Fixed	Fixed
Investment Portfolio Components (where applicable)	<u>For Wakalah Bil Istithmar</u> <ol style="list-style-type: none"> 1. Equity 2. Non-Tangible Asset 	<u>For Wakalah Bil Istithmar</u> <ol style="list-style-type: none"> 1. Equity 2. Non Tangible Asset 	<ol style="list-style-type: none"> 1. Tangible Asset (TA) 2. Non-Tangible Asset (NTA)
Portfolio Ratio	<u>For Wakalah Bil Istithmar</u> 30:70 (Equity : NTA)	<u>For Wakalah Bil Istithmar</u> 30:70 (Equity : NTA)	34: 66 (TA : NTA)



Cagamas Sukuk Issuances

Cagamas had helped spur the development of the Sukuk market since 1994 by:

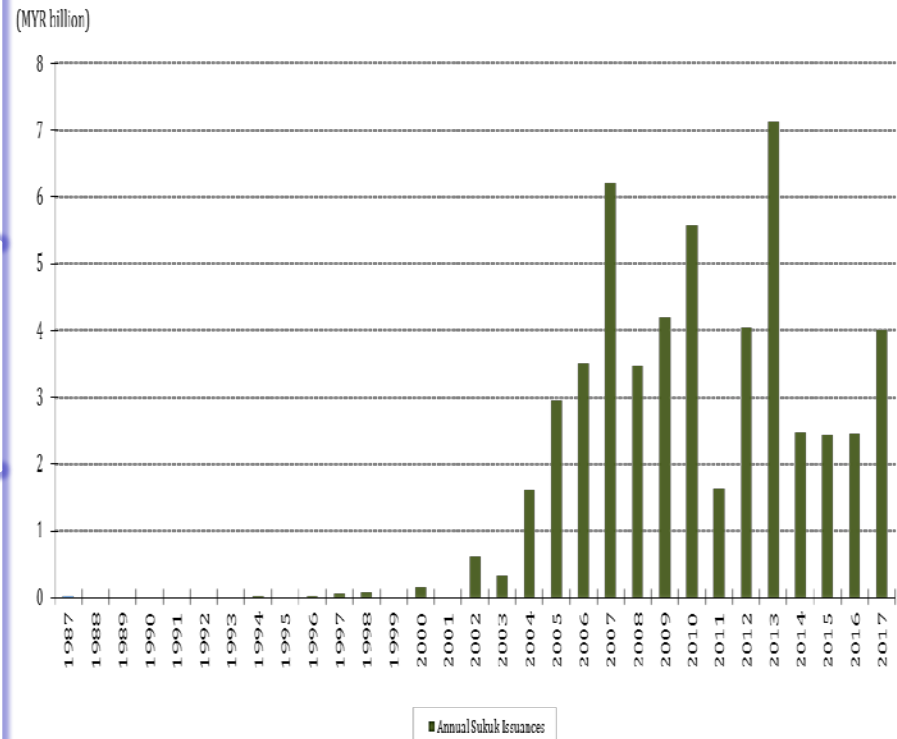
1. Creating and establishing pricing benchmark for the Private Debt Securities (PDS) market; and
2. Leading the way in terms of innovation such as the use of Crude Palm Oil (CPO) as an acceptable underlying asset to facilitate sukuk issuance

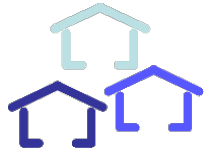
Cagamas' pioneering efforts in the Sukuk space provided comfort and confidence to other issuers and encourage them to undertake further development in their sukuk offerings.

From Cagamas' perspective as an issuer, the type of sukuk for issuance purposes would depend on, amongst others, the demand of the investors as Cagamas' commitment to fulfil its mandates is achieved by matching issuances with assets that it purchases.

Cagamas, in meeting its commitment to develop the Islamic capital market in Malaysia, is continuously innovating and introducing sukuk structures that would be acceptable to the most discerning investors especially with the introduction of its first USD2.5 billion Islamic Multicurrency MTN (Islamic EMTN) programme in 2014.

Total sukuk issuances (as at 31 Dec 2017) = RM52.93 billion
Outstanding Sukuk (as at 30 June 2018) = RM14.22 billion





Questions on Issuances



ABS vs MTN – what drives Cagamas' decision?

What is MTN?

Medium-term Notes (MTNs) are debt securities with maturities that range from 9 months to 30 years or longer. Most MTNs are non-callable, unsecured, senior debt with fixed rates and investment grade ratings.

When?

Cagamas may consider the following factors when deciding between ABS and MTN:

1. Ability to match terms with investors purposes
2. Flexibility of issuance
 - Shariah structure
 - Investors needs/expectations
3. Pricing
4. Turnaround time



Private Placement:

Pros and Cons from Cagamas' Perspective

What?

Private placement method is a method of marketing of securities whereby the issuer makes the offer of sale to individuals and institutions privately without the issue of the prospectus.

When?

Depending on the deal and necessity, Cagamas may embark on private placement instead of book building.

Who?

Normally, private placement route is favoured for smaller deals/issuances.

Why?

1. Faster execution time
2. Pricing advantages

Why not?

1. Concentration of securities in a few hands
2. Less opportunities for investors to subscribe to the issue.



Stock Reopening

What?

Enlarging existing tranche size to encourage trading activity and meet the pre requisite minimum size for inclusion into widely followed local currency bond indices.

Why?

- Expedite fund raising
- Promotion of secondary liquidity for outstanding sukuk



FCY Issuance & Concerns of Foreign Investors

When?

When the overall cost is favourable to Cagamas e.g. cost is lower than issuing in RM*.

*For FCY issuance, it is swapped back to RM, therefore cost of issuance should be lower than that of in RM for Cagamas to opt for FCY issuance.

Which currency?

Depends on the pricing

What are the issues raised?

Depending on the type of investors, issues raised would include:

- Shariah structure;
- Return/yield;
- Risks including events of default;
- Income generation from the underlying asset; and
- Tenure.

The Islamic EMTN program was established in 2014 to further enable Cagamas to diversify its existing funding avenues and investor base.

Additional incentives such as issuances in foreign currency could be due to favourable price movement in Cross Currency Swap of a particular currency or simply our inherent funding needs for a specific currency.



Awards & Accolades



Awards & Accolades

Recent Awards and Accolades



Best Local Currency Sukuk

2016

Cagamas 500 million ringgit
Commodity Murabahah sukuk



Treasurer of the Year – Malaysia

2016



Best Corporate Sukuk

2015

Cagamas RM70 million One-Year
and
RM930 million Three-Year Sukuk



**Best Issuer of the Year
for Corporate**

2015



**Market Pioneer Award for the
World's 1st RMB-bond by a
Mortgage Corporation**

2014

Cagamas RMB1.5 billion
Offshore RMB Bond



**Best Renminbi (Offshore)
Offering**

2014

Cagamas RMB1.5 billion
Offshore RMB Bond



**Best Foreign Currency Bond
Deal of the Year 2014 in
Southeast Asia**

2014

Cagamas RMB1.5 billion
Offshore RMB Bond



**Best Deal- Highly Commended,
Malaysia**

2014

Cagamas 3.8 Billion Ringgit
Multi-Tenor Sukuk



**Most Outstanding
Securitisation House**

2013



**Highly Commended /
Most Innovative Deal**

2013

Cagamas 500 million ringgit
multi-tenor Sukuk Wakala Bil Istithmar



**Best Islamic Commodity-linked
Murabaha**

2011

RM230 million Variable Rate
Sukuk Commodity Murabahah



Best Islamic Deal, Malaysia

2011


Cagamas RM1.0 billion Sukuk
al-Amanah Li al-Istithmar
(Sukuk ALIm)



Islamic Deal of the Year


2011

Cagamas RM1.0 billion Sukuk
al-Amanah Li al-Istithmar
(Sukuk ALIm)



Sukuk Issuer of the Year


2011



Islamic Issuer of the Year

2011

Cagamas RM1.0 billion
Sukuk al-Amanah
Li al-Istithmar (Sukuk ALIm)



Malaysian Innovation of the Year

2010

Cagamas RM5.0 billion Sukuk
al-Amanah Li al-Istithmar programme
(Sukuk ALIm)



Country Deals of the Year

2010

Cagamas RM1.0 billion Sukuk
al-Amanah Li al-Istithmar
(Sukuk ALIm)



Tawarruq Deal of the Year

2010

RM230 million Variable Rate
Sukuk Commodity Murabahah



Islamic Deal of the Year

2010

Cagamas RM1.0 billion Sukuk al-
Amanah Li al-Istithmar (Sukuk ALIm)



Tawarruq Deal of the Year

2009


Sukuk Commodity Murabahah
RM915 million Medium Term Notes



Most Innovative Deal of the Year

2009


Sukuk Commodity Murabahah
RM915 million Medium Term Notes



Most Innovative Islamic Finance Deal


2008

RM2.015 billion Sukuk Commodity
Murabahah



Islamic Issuer of the Year

2008



**New Structured Finance
Benchmark Deal**

2007

Cagamas SME Berhad
Synthetic Securitisation of
RM600 million SME Loans



Awards & Accolades

Recent Awards and Accolades



Best Domestic Securitisation

2007

Cagamas SME Berhad
Synthetic Securitisation of
RM600 million SME Loans



Asian Deal of the Year

2007

Cagamas SME Berhad
Synthetic Securitisation of
RM600 million SME Loans



**Malaysia Capital Markets
Deal of the Year**

2007

Cagamas SME Berhad
Synthetic Securitisation of
RM600 million SME Loans



New Islamic Benchmark Deal

2005

Cagamas MBS Berhad
RM2.05 billion Islamic Residential
Mortgage-Backed Sukuk Musyarakah



Islamic Finance Deal of the Year

2005

Cagamas MBS Berhad
RM2.05 billion Islamic Residential
Mortgage-Backed Sukuk Musyarakah



**Best Malaysia Deal
Best Domestic Securitisation Deal
Best Islamic Finance Deal**

2005

Cagamas MBS Berhad
RM2.05 billion Islamic Residential
Mortgage-Backed Sukuk Musyarakah



Best Malaysian Ringgit Bond

2004

Cagamas MBS Berhad
RM1.55 billion Residential
Mortgage-Backed Securities



**Best Local Currency Bond
in Asia**

2004

Cagamas MBS Berhad
RM1.55 billion Residential
Mortgage-Backed Securities



**Best Local Currency
Bond Deal of the Year**

2004

Cagamas MBS Berhad
RM1.55 billion Residential
Mortgage-Backed Securities

*Conferment of
'Emas' Status for
Cagamas
Singapore Dollar
denominated
Sukuk EMTN
issuance by Bank
Negara Malaysia*



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