



BUSINESS REVIEW

Cagamas Holdings Berhad is a holding company incorporated in 2007. Its subsidiaries are Cagamas Berhad (“Cagamas”), Cagamas SRP Berhad (“CSRP”), Cagamas MBS Berhad, Cagamas SME Berhad, BNM Sukuk Berhad and Cagamas MGP Berhad (collectively “the Group”). Its wholly-owned subsidiary, Cagamas, is the main operating entity of the Group and plays a strategic role to promote the broader spread of home ownership and the development of the secondary mortgage market and Islamic finance as well as contribute towards nation development.

Cagamas Berhad

Cagamas, the National Mortgage Corporation of Malaysia, was established in 1986 by Bank Negara Malaysia (“BNM”) to support the national agenda of increasing home ownership and affordability through the provision of competitively priced liquidity in the secondary mortgage market, as well as to promote and develop Islamic finance within Malaysia. By issuing debt securities in the capital market to purchase residential mortgages, Cagamas creates a secondary market for mortgages and provides liquidity to the financial system which contributes to the development of Malaysia’s capital market. Two subsidiaries, namely Cagamas Global P.L.C. and Cagamas Global Sukuk Berhad, were established for the purpose of issuing foreign currency (“FCY”) bonds and sukuk, 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 rate, thus encouraging the origination of additional housing loans and financing to new applicants at an affordable cost.

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’ corporate bonds and sukuk 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’s efforts aimed at assisting first time house buyers, CSRP was established in 2011 with the objective of providing mortgage guarantees to the primary lenders of home financing. Through two schemes, namely the Skim Rumah Pertamaku (“My First Home Scheme [SRP]”) and Skim Perumahan Belia (“Youth Housing Scheme [SPB]”), qualified 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, CSRP offers the mortgage guarantee as a “first loss” protection on the residential mortgage portfolios of the Financial Institutions (“FIs”). The guarantee reduces the credit risk on their mortgage home financing portfolios, whilst improving their Total Capital Ratio and return on risk weighted assets.

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 to issue Residential Mortgage Backed Securities and Islamic Residential Mortgage Backed Securities in the capital market to fund those purchases.

OPERATING REVIEW 2020

Global and Domestic Economic Environment

The global growth contraction for 2020 is estimated at -3.5% (2019: 2.8%)¹ resulting from a severe collapse of economic activities due to the COVID-19 pandemic. The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spill-overs and structural characteristics entering the crisis. Multiple vaccine approvals by health authorities and the launch of vaccination programmes in some countries in December have raised hopes of an eventual end to the pandemic. Despite the high and rising human toll of the pandemic, economic activities appear to be adapting to subdued contact-intensive activity with the passage of time.

¹ International Monetary Fund, World Economic Outlook Jan 2021



The Malaysian economy contracted 5.6% in 2020 (2019: 4.3%), slightly below the government's projection of -3.5% to -5.5%.² The negative growth is largely attributable to the imposition of the Movement Control Orders ("MCO") and the subsequent conditional and recovery MCOs since March of last year. The restrictions on mobility, especially on inter-district and inter-state travel, weighed on economic activities but improvement in external demand provided the much-needed support for economic growth. However, the resurgence of COVID-19 cases towards the end of 2020 followed by targeted containment measures in most states could affect the momentum for recovery.

Interest Rate and Liquidity Environment

In 2020, banking system's liquidity remained sufficient to facilitate financial intermediation. At the institutional level, most banks continued to maintain surplus liquidity positions with BNM. On 3 November 2020, the Monetary Policy Committee maintained the Overnight Policy Rate ("OPR") at 1.75% and the current monetary policy stance remains accommodative and supportive of economic activity. The cumulative 125 basis points reduction in the OPR in 2020 will continue to provide stimulus to the economy. While the Statutory Reserve Requirement ("SRR") ratio remained unchanged at 2.00%, the flexibility to use Malaysian Government Securities ("MGS") and Malaysian Government Investment Issues ("MGII") to fully comply with the SRR was provided to all banking institutions in May 2020. The Ringgit appreciated by 3.6% against the US dollar during the fourth quarter of 2020, driven mainly by non-resident portfolio inflows as investors' risk appetite continued to improve.

Property Market

The Malaysian House Price Index stood at 197.8 points as at 3Q 2020, recording a decrease of 0.9% against 3Q 2019 (199.5 points). In the 1H 2020, the residential property sector recorded 75,318 transactions worth RM25.61 billion, declining 24.6% in volume and 26.1% in value compared with the 1H 2019. Residential properties continued to support the overall property sector making up 65% of the total volume and almost 55% of the total value. According to the latest data by the National Property Information Centre, as at 1H 2020, the residential overhang had accumulated to 31,661 units worth RM20.03 billion, an increase of 3.3% in volume (2H 2019: 30,664 units) and 6.4% in value against the preceding half year (2H 2019: RM18.82 billion).³

Bond Market

The year 2020 saw unprecedented economic shock arising from the COVID-19 pandemic which has led policy makers globally to unveil large-scale stimulus measures to cushion the impact of the pandemic. In the United States of America ("US"), the Federal Reserve reduced interest rates by 150 bps to 0.00% - 0.25% and introduced broad Quantitative Easing ("QE") programmes with unlimited commitment to purchase US Treasuries and mortgage-backed securities. In the United Kingdom ("UK"), the Bank of England cut interest rates by 65 bps to 0.10% and announced a further GBP200.0 billion of QE, keeping a lid on UK gilts and reducing borrowing costs. As for the Eurozone, the European Central Bank announced its own massive QE worth EUR870.0 billion to buy corporate and government bonds.

On the local front, the economy was not spared from the effects of the COVID-19 outbreak which resulted in a dampened interest rate environment. The MGS yields decreased by an average of 98 bps across tenures mainly due to the total cumulative OPR cuts in 2020. The additional measures introduced by BNM on the reduction in SRR and the utilisation of MGS/ MGII to meet the SRR until 31 May 2021 form part of continued efforts to ensure sufficient liquidity to support financial intermediation activity.

The local corporate bond and sukuk market moved in tandem with the MGS curve, alongside the dovish stance of BNM, wherein the yields for corporate bonds and sukuk i.e. Government Guaranteed ("GG"), Cagamas and AAA-rated papers moved lower as at end December 2020 compared to end December 2019, albeit at a slower pace. In terms of credit spread, the average credit spread of GG, Cagamas and AAA-rated papers against MGS widened by 10 bps, 14 bps and 7 bps, respectively.

² Quarterly Bulletin - Economic & Financial Development 4Q2020

³ National Property Information Centre

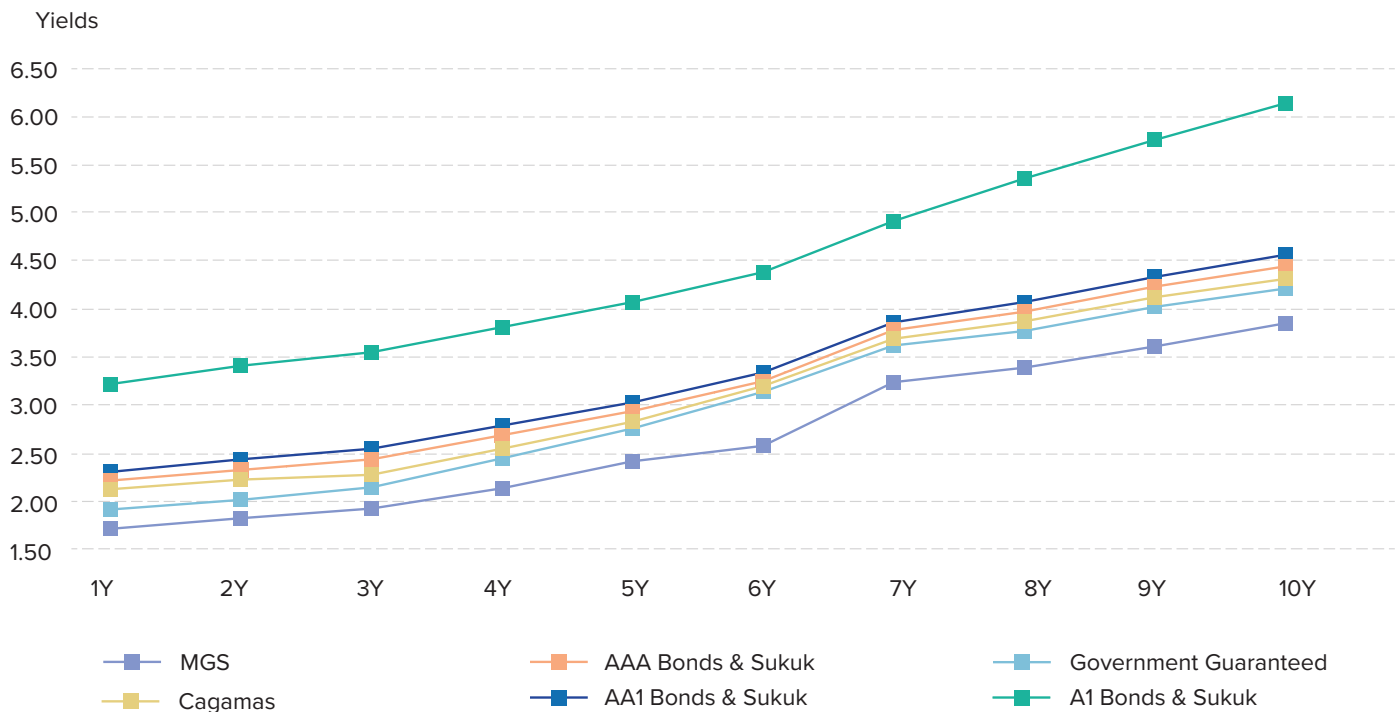


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Chart 1

Bond Yield Comparison as at 31 December 2020



As at end December 2020, total foreign holdings of MGS increased by RM13.4 billion to a total of RM177.3 billion (December 2019: RM163.9 billion), resulting in foreign holdings of MGS to comprise 40.6% (December 2019: 41.6%) of total MGS outstanding. Foreign holdings of MGS recorded its lowest for the year 2020 at 35.8% in April, down from 41.7% in January. The resurgence in foreign demand of MGS especially in 4Q 2020 was a result of the well-supported Ringgit bond market following no major sell-off from the sovereign rating downgrade by Fitch in December 2020, as well as improved external risk sentiment on vaccine optimism.

As for the MGII, total foreign holdings increased by RM3.7 billion to a total of RM24.8 billion as at end December 2020 (December 2019: RM21.1 billion) resulting in the increase in foreign holdings of total MGII outstanding as of December 2020 to 6.6% (December 2019: 6.2%).

Overall, total foreign holdings in MGS and MGII increased in December 2020, with total holdings higher by RM17.1 billion or 9.2% to RM202.1 billion (December 2019: RM185.0 billion).

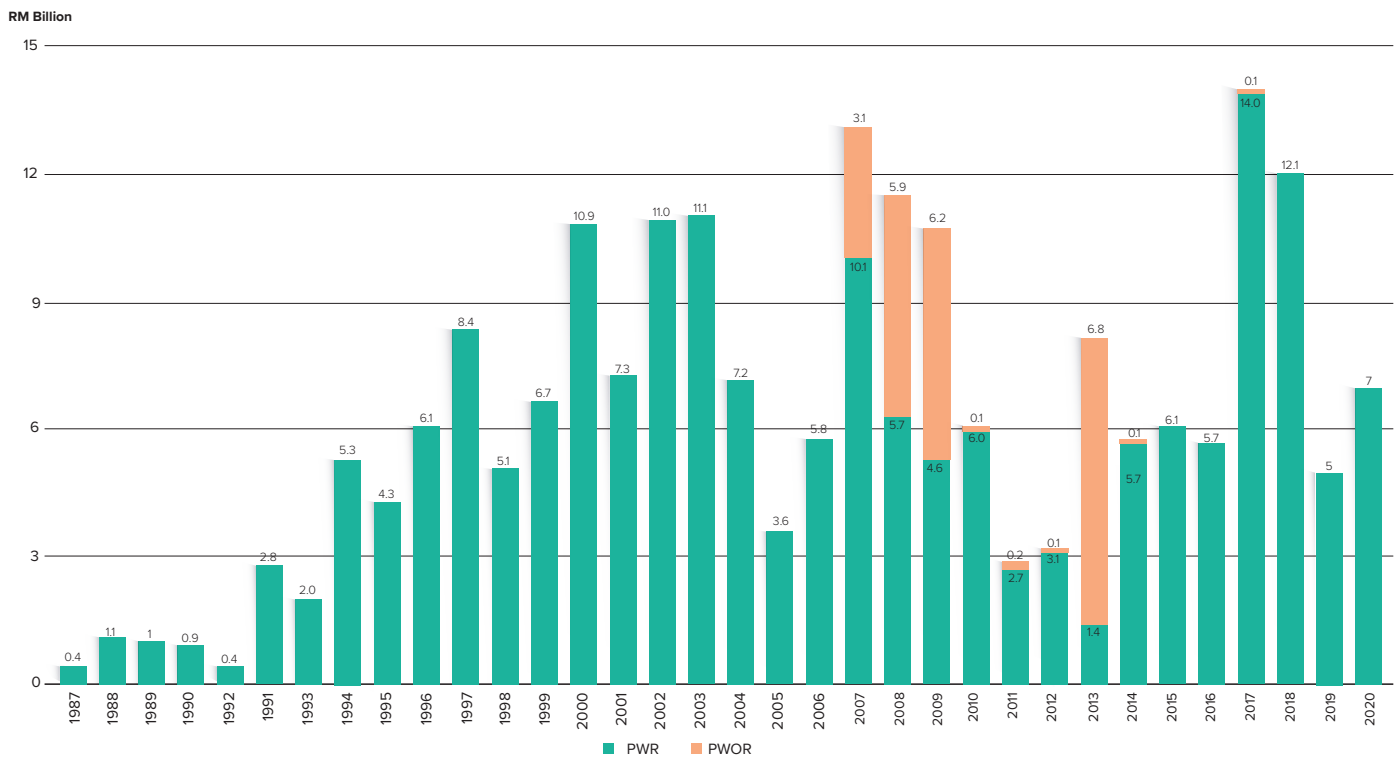


PURCHASE OF LOANS AND FINANCING

Cagamas recorded RM7.0 billion purchases of loans and financing under the PWR scheme (2019: RM5.0 billion). Cagamas' net outstanding loans and financing decreased by 12.2% to RM33.2 billion (2019: RM37.8 billion). As at the end of 2020, residential mortgages dominated Cagamas' portfolio at 98.0% (2019: 98.6%), followed by hire purchase financing at 2.0% (2019: 1.4%). Cagamas' Islamic asset portfolio against conventional assets increased to a ratio of 45:55 (2019: 43:57), while PWR and PWOR loans and financing portfolios were at 68% and 32%⁴ respectively (2019: 70% and 30% respectively). Gross impaired loans and financing under the PWOR scheme stood at 0.61% (2019: 0.72%), while net impaired loans and financing was at 0.09% (2019: 0.11%).

Chart 2

Cagamas' Annual Purchases, 1987-2020



⁴ Gross loans and financing before loan loss provision and accretion

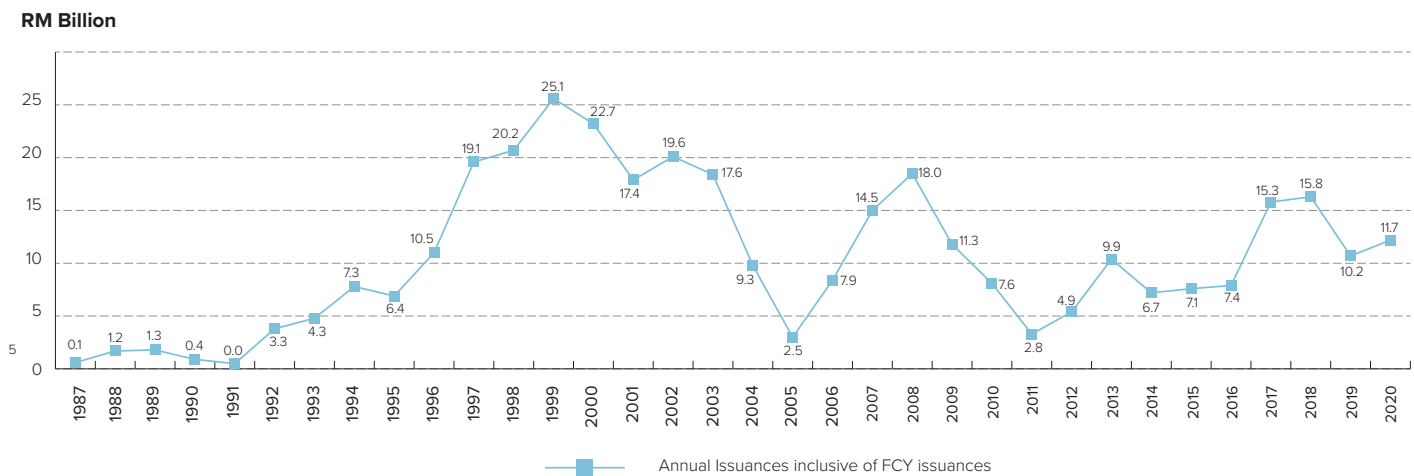


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ISSUANCE OF CAGAMAS BONDS AND SUKUK

Since 1987 until end 2020, Cagamas and its subsidiaries, namely Cagamas Global P.L.C. and Cagamas Sukuk Berhad, had cumulatively issued a total of RM339.5 billion of corporate bonds and sukuk, of which RM61.9 billion comprised sukuk and RM10.4⁵ billion equivalent was from FCY issuances.

Chart 3
Cagamas' Annual Issuances, 1987-2020



In 2020, Cagamas issued a total of RM11.7 billion worth of debts, marking its fourth consecutive year of surpassing RM10.0 billion worth of issuances, through 22 issuance exercises that resulted in 46 new stocks. From the total issuance, 74% or RM8.6 billion was raised via conventional debt issuances and 26% or RM3.1 billion was raised via sukuk issuances.

Cagamas' commitment to support the development of sustainable product offerings such as affordable housing loans and financing led to its inaugural and Malaysia's first 3-year RM100 million ASEAN Sustainability SRI Sukuk ("SRI Sukuk") in October 2020. Overwhelming response to the SRI Sukuk issuance facilitated the issuance of the first multi-tenured ASEAN Sustainability Bonds for the Small and Medium Enterprise ("SME") sector totalling RM100 million, comprising RM35 million one-year, RM20 million two-year and RM45 million two-and-a-half-year bonds in the same month.

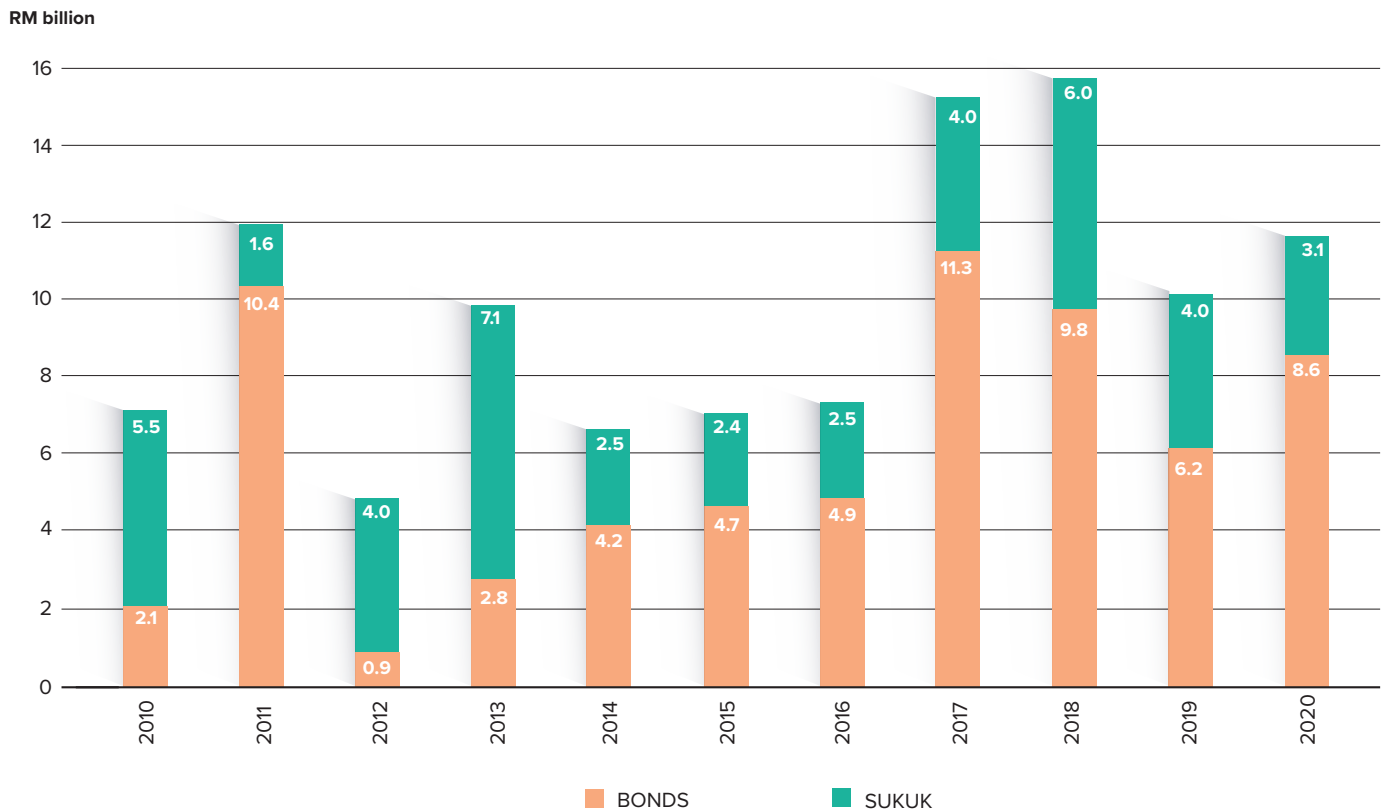
⁵ Foreign currency issuances of RM10.4 billion valued as at issue dates



Cagamas returned to the FCY market in 2020 with an issuance of SGD130 million (RM396 million equivalent). The SGD issuance marked the only SGD issuance from a Malaysian corporate issuer in 2020, demonstrating Cagamas' continued capability to raise funding from the international market at a competitive price via a private placement exercise.

In terms of issuance tenure, 87% of total issuances in 2020 amounting to RM10.1 billion were for tenures of one year and below (2019: 79% or RM8.1 billion) while the balance of 13% or RM1.6 billion were for tenures of between one to three years (2019: 13% or RM1.3 billion). There was no issuance for tenures above three years in 2020 (2019: 8% amounting to RM0.8 billion).

Chart 4
Annual Bonds and Sukuk Issuances, 2010 – 2020



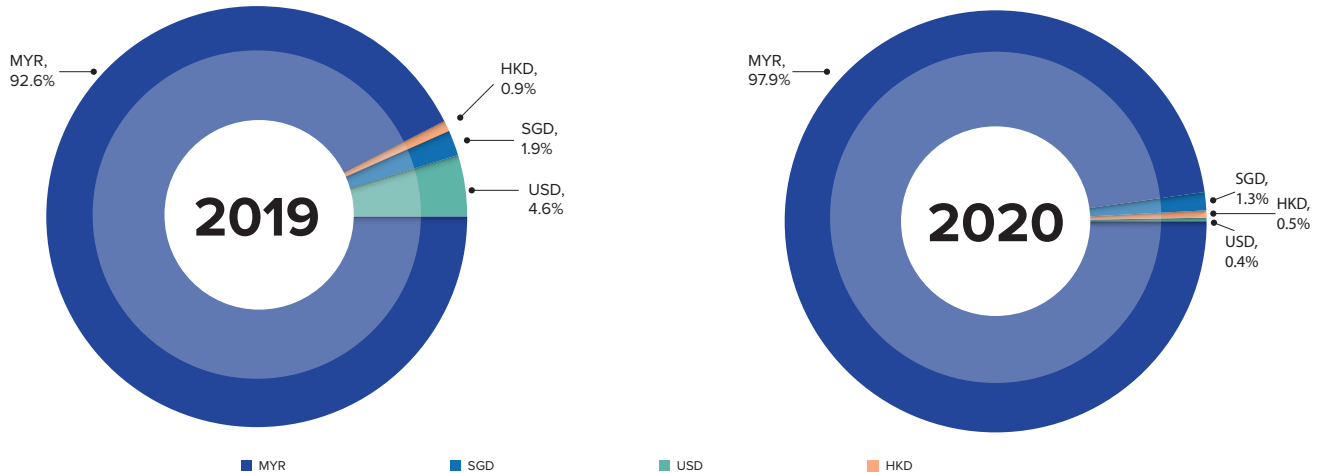


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Chart 5

Outstanding Bonds/ Sukuk by Currency, 2019 & 2020



In terms of the most traded local corporate bonds and sukuk in 2020, Cagamas ranked eighth with a total traded volume of RM3.8 billion, commanding a market share of 2.5% (2019: ranked sixth, RM4.8 billion or 2.9%). Cagamas recorded a total traded volume of RM851.0 million for local conventional corporate bonds, comprising a market share of 5.7% (2019: RM2.9 billion or 14.0%) whereas for local corporate sukuk, Cagamas recorded a total traded volume of RM2.9 billion, with a market share of 2.1% (2019: RM1.8 billion or 1.3%).

As at end December 2020, outstanding Cagamas debt securities stood at RM31.3 billion where RM30.6 billion or 98% was in local currency and RM0.7 billion equivalent or 2% was denominated in foreign currencies. Conventional bonds comprised 55% or RM17.4 billion of the total outstanding while the remaining 45% or RM13.9 billion were sukuk. Cagamas remained as one of the largest issuers of corporate bonds and sukuk in Malaysia, accounting for 4.1% of the total outstanding corporate bonds and sukuk and 18.5% of outstanding AAA-rated bonds and sukuk.

CREDIT RATING

For 2020, Cagamas successfully reaffirmed its credit ratings with three rating agencies. Moody's Investors Service ("Moody's") assigned long-term issuer A3 ratings for both Cagamas' local and FCY 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 1
Cagamas Credit Ratings

	Ratings Agency		
	Moody's	RAM Ratings	MARC
Cagamas Berhad	A3	^g A ₂ /Stable/ ^g P1, ^{sea} AAA/ Stable/ ^{sea} P1, AAA/Stable/P1	AAA/MARC-1, AAA _{IS} /MARC-1 _{IS}

MORTGAGE GUARANTEE

CSRP offers mortgage guarantee as a “first loss” protection on the residential mortgage home financing portfolio of the FIs. For first time house buyers, the guarantee serves as a useful facility to obtain up to 110% financing through SRP and SPB. This is in line with the Government’s aspirations of increasing home ownership amongst the “rakyat”.

As part of Cagamas’ initiatives to further promote SRP, Cagamas successfully embarked on the digitalisation of SRP in September 2020, which was launched by the Minister of Housing & Local Government with the aim to increase SRP’s outreach among eligible potential house buyers.

As at 31 December 2020, CSRP’s cumulative guarantee exposure to the SRP and SPB schemes was RM1.2 billion as compared with RM706.5 million in 2019. 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 25 participating FIs as well as collaborations with online property portals. For 2020, the total value of new loans and financing approved for both SRP and SPB was RM4.2 billion which translates to 18,787 individuals/ households.

Since the launch of SRP and SPB in 2011 and 2015 respectively, CSRP has provided guarantees for housing loans and financing totalling RM11.1 billion enabling 52,203 individuals/ households to own their first home, of which 87% are from the B40 segment.

Table 2
Skim Rumah Pertamaku and Skim Perumahan Belia

	2011 - 2019	2011 - 2020	Growth
(RM'mil)			
Guaranteed Exposure	706.5	1,170.8	+66%
SRP	563.1	992.8	+76%
SPB	143.4	178.1	+24%
(RM'mil)			
Loans and Financing Value	6,880.1	11,087.5	+61%
SRP	5,368.1	9,207.2	+72%
SPB	1,512.0	1,880.3	+24%
Number of Loans and Financing Approved	33,236	52,203	+57%
SRP	26,213	43,384	+66%
SPB	7,023	8,639	+23%

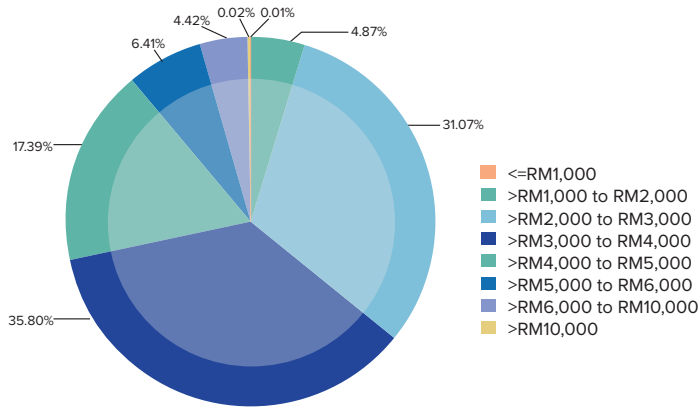
Note: Latest figures may differ with previous reporting due to revisions requested by counterparties



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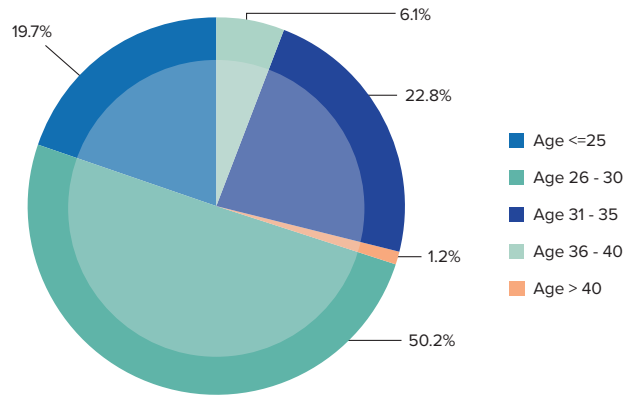
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Chart 6
SRP & SPB: Income Range by Number of Loans



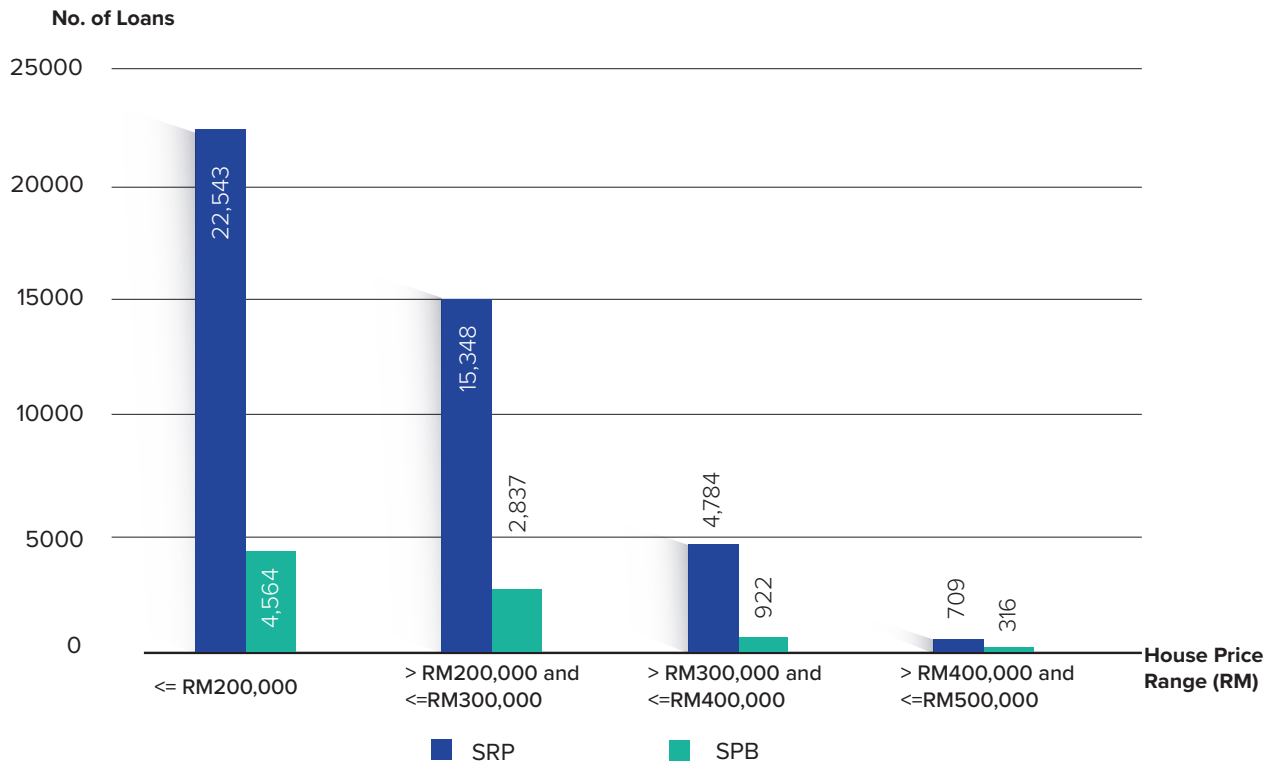
Data as at 31 December 2020

Chart 7
SRP & SPB: Age Range by Number of Loans



Data as at 31 December 2020

Chart 8
SRP & SPB: House Price Range by Number of Loans



Data as at 31 December 2020



SECURITISATION

As at end 2020, total outstanding Cagamas MBS Berhad's mortgage backed securities ("CMBS bonds and sukuk") stood at RM1.23 billion out of the total issuances of RM10.2 billion, comprising RM0.62 billion of conventional bonds and RM0.61 billion of sukuk. The outstanding CMBS bonds and sukuk are expected to mature in stages and be fully redeemed by August 2027. There were no new securitisation transactions during the year.

FUTURE DEVELOPMENTS IN CAGAMAS' BUSINESS

Despite the COVID-19 pandemic that has adversely impacted the domestic and global economy, Cagamas will continue to innovate and explore new opportunities aligned with its core missions and social objectives, to enhance its role as a liquidity and capital management solutions provider to FIs as well as to extend "first loss" protection through mortgage guarantee programmes. In addition, Cagamas will further enhance its collaboration with the Government and continue to provide assistance in the areas of affordable housing and home ownership initiatives, leveraging on its expertise for solutions to address the possible adverse impact of COVID-19.

Cagamas' issuance of its inaugural ASEAN Sustainability SRI Sukuk reaffirms its commitment towards the environment and the nation as affordable housing vis-à-vis sustainable development has always been the core priority. Aligned with Cagamas' green agenda initiatives, Cagamas will continue to explore the feasibility of purchasing loans and financing related to environmental and social impact projects via the issuance of sustainability bonds and sukuk aimed at attracting green and socially responsible investors to the existing pool of investors.

Moving forward, Cagamas will continue to structure and introduce innovative schemes such as a Home Equity Scheme and financing for the gig economy to meet the demands and needs of house buyers in purchasing their first homes as well as exploring the establishment of a reverse mortgage programme for the silver economy. Cagamas also intends to expand and diversify its investor profile by studying the feasibility of issuing retail bonds as well as focus on providing liquidity support for SME financing via capital market solutions.

Acknowledged as a thought leader in mortgage refinancing and Islamic finance, Cagamas will continue in its efforts to enhance regional and global development of secondary mortgage markets by actively participating in international speaking circuits as an advocate for Islamic finance, capital markets and housing finance. Cagamas will also endeavour to play its leadership role within the International Secondary Mortgage Market Association as well as the Asian Secondary Mortgage Market Association to focus on collective collaborations and support for the development of secondary mortgage market institutions globally.