

# Business Review

Cagamas Holdings Berhad, incorporated in 2007 is the holding company of 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 Malaysia’s National Mortgage Corporation and is the main operating entity of the Group. It 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 was established in 1986 by Bank Negara Malaysia (“BNM”) to support the national agenda of increasing home ownership and promoting the development of the capital market and secondary mortgage market through the provision of competitively priced liquidity. In addition, Cagamas also played an important role in the development and promotion of 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. Additionally, Cagamas Global P.L.C. and Cagamas Global Sukuk Berhad are subsidiaries established under Cagamas 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.

To fund its purchases, Cagamas taps into the capital market through the issuance of corporate bonds and sukuk in the form of fixed and floating rate bonds, discounted/coupon bearing

notes and sukuk. In managing liquidity risk, Cagamas issues corporate bonds and sukuk that 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

Established in 2011, CSRP is part of the Government’s efforts aimed at assisting first time house buyers with its main objective to provide mortgage guarantees to the primary lenders of home financing. Through Skim Rumah Pertamaku (“My First Home Scheme [SRP]”), qualified house buyers can obtain up to 110% financing from participating banks, enabling them to own a home without paying a down payment.

CSRP also offers the mortgage guarantee on a “first loss” protection basis on the residential mortgage portfolios of the Financial Institutions (“FIs”). The guarantee reduces the credit risk on their mortgage loan/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 established 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 2021

### Global and Domestic Economic Environment

The global economy has improved at an estimated 5.9% in 2021 (2020: -3.1%).<sup>1</sup> Pandemic outbreaks in critical links of global supply chains have resulted in longer than expected supply disruptions, further fuelling inflation in many countries. As the new Omicron COVID-19 variant spreads, certain countries have reimposed mobility restrictions. Rising energy prices have resulted in higher and more broad-based inflation than anticipated. As advanced economies lift policy rates, risk of financial stability may emerge particularly in emerging markets and developing economies' capital flows, currencies, and fiscal positions especially with debt levels having increased significantly in the past two years. Most global central banks maintained their key monetary policies, unchanged through most part of 2021 to support the economic recovery post COVID-19 shock. However, strong economic recovery momentum and rising inflationary pressure, particularly in the advanced economies, have led to withdrawal of some of the policy supports.

Malaysia's gross domestic product expanded 3.1% in 2021 (2020: -5.6%) on the back of a positive growth of 3.6% in the fourth quarter of 2021 (3Q 2021: -4.5%).<sup>2</sup> Growth was supported mainly by an improvement in domestic demand as economic activity normalised following the easing of containment measures under the National Recovery Plan. The improvement also reflected recovery in the labour market as well as continued policy support. In addition, strong external demand amid the continued upcycle in global technology provided a further lift to growth.

### Interest Rate and Liquidity Environment

BNM maintained an accommodative monetary policy stance in 2021 by keeping the Overnight Policy Rate ("OPR") unchanged at 1.75% throughout the year, to support the economic recovery after easing of containment measures. The liquidity condition in the banking system remained stable as evidenced by the consistently strong Liquidity Coverage Ratio of more than 100% reported by banks, while all banks had also complied to BNM's Net Stable Funding Ratio minimum requirement of 100% ahead of the 30 September 2021 compliance deadline. Notably, BNM's decision to maintain the Statutory Reserve Requirement ("SRR") unchanged at 2.00% while extending the flexibility to use Malaysian Government Securities ("MGS") and Malaysian Government Investment Issues ("MGI") to meet SRR compliance to all banking institutions until 31 December 2022 – from the initial deadline of 31 May 2021, provided further liquidity to the banking system.

### Property Market

The Malaysian House Price Index stood at 198.6 points as at 3Q 2021, recorded a slight decrease of 0.7% against 3Q 2020 (199.9 points). Despite prevailing subdued market sentiments, the Malaysian property market performed better than expected in 2021. In the 1H 2021, the residential property sector recorded 92,017 transactions worth RM34.51 billion, an increase of 22.2% in volume and 34.8% in value compared with the 1H 2020. Residential properties continued to support the overall property sector making up 65.8% of the total volume and 55.6% of the total value. According to the latest data by the National Property Information Centre, as at 1H 2021, the residential overhang stands at 31,112 units worth RM20.09 billion, a decrease of 1.7% in volume (1H 2020: 31,661 units) and 0.3% in value against the preceding half year (1H 2020: RM20.03 billion).<sup>3</sup> The overall positive indicators captured in 1H 2021 promises a more stabilised market for the whole of 2021.

### Bond Market

The US Federal Reserve (the "Fed") continued to keep its policy rates unchanged at 0%-0.25% in 2021 to ensure a strong economic recovery after continued relaxation of containment measures throughout the year. The Fed's Gross Domestic Product growth outlook remained positive in 2021 with progress on vaccinations and policy support but may continue to be affected by COVID-19 variants. On year-on-year ("YoY") basis, US 10-year Treasury yield climbed 60 basis points ("bps") from 0.92% as the Fed started to withdraw the buyback programme gradually since November 2021, ended flat at 1.51% as at year end.

On the local front, the Monetary Policy Committee of Bank Negara Malaysia maintained the OPR at 1.75% throughout 2021. Malaysia's economic activity rebounded in the fourth quarter, supported by the relaxation of containment measures and expected to gain further momentum in 2022 as economic activity gradually normalises. On YoY basis, Malaysia 10-year Government Securities yield rose by 92 bps at end-2021, closing at 3.58%.

In 2021, total issuances of bonds and sukuk including Government papers amounting to RM377.4 billion comprising RM209.4 billion and RM168.0 billion for Government papers and corporate bonds and sukuk respectively. There was an increase of overall yields in the market in 2021, ranging from 12 bps to 103 bps across the MGS curve partly due to the market expectation of potential change in monetary policy arising from greater momentum of economic recovery.

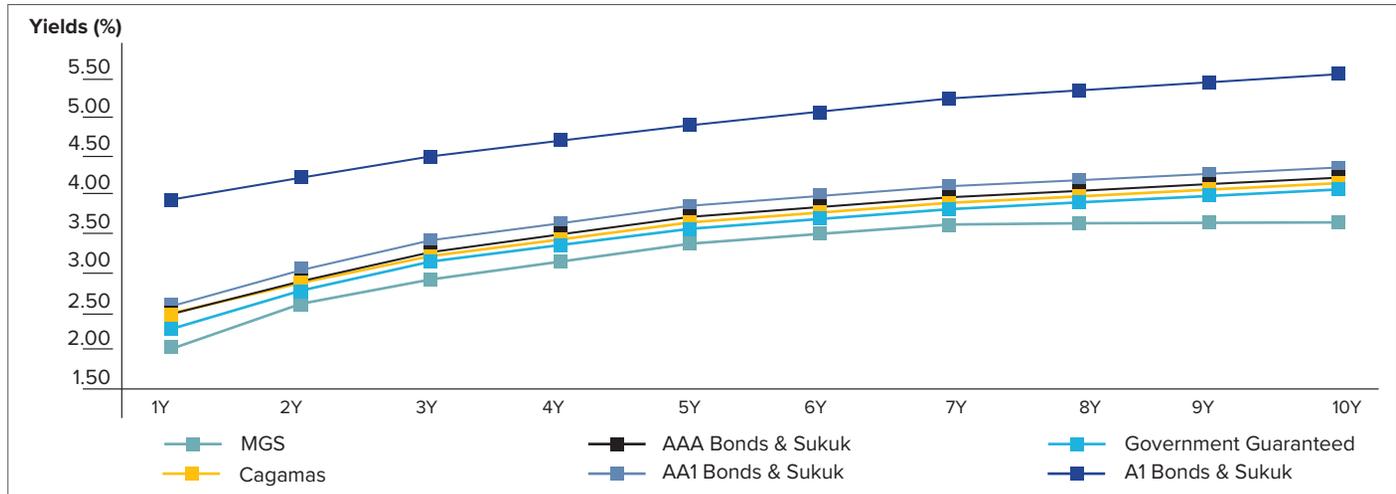
<sup>1</sup> International Monetary Fund, World Economic Outlook January 2022

<sup>2</sup> Quarterly Bulletin – Economic & Financial Development 4Q2021

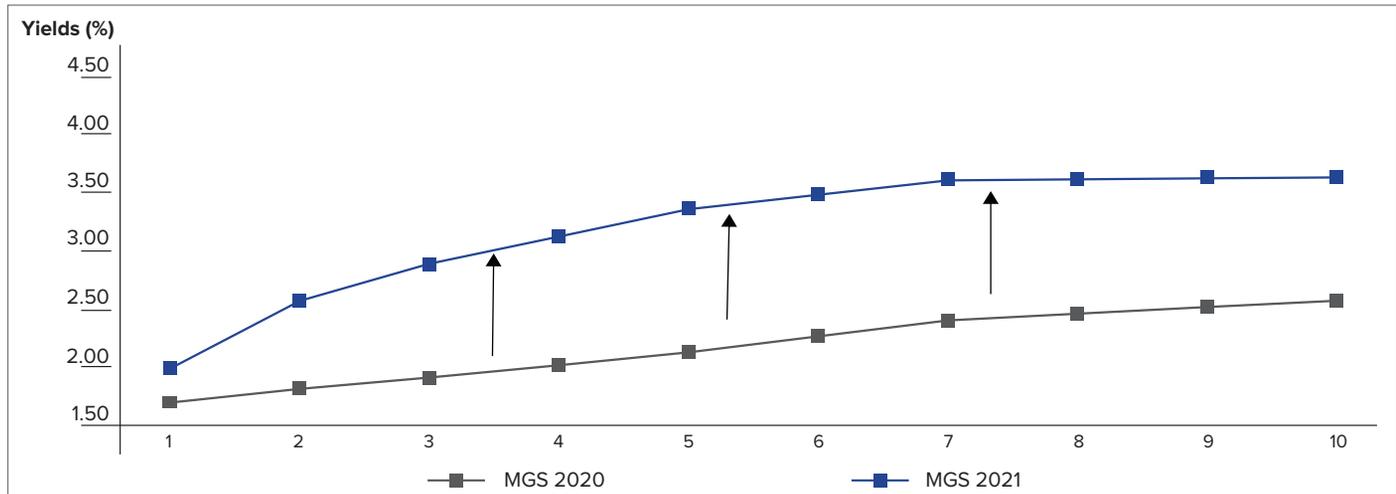
<sup>3</sup> National Property Information Centre

## Business Review (Continued)

**Chart 1**  
Bond Yield Comparison as at 31 December 2021



**Chart 2**  
MGS Yield Comparison for 31 December 2021 vs 31 December 2020



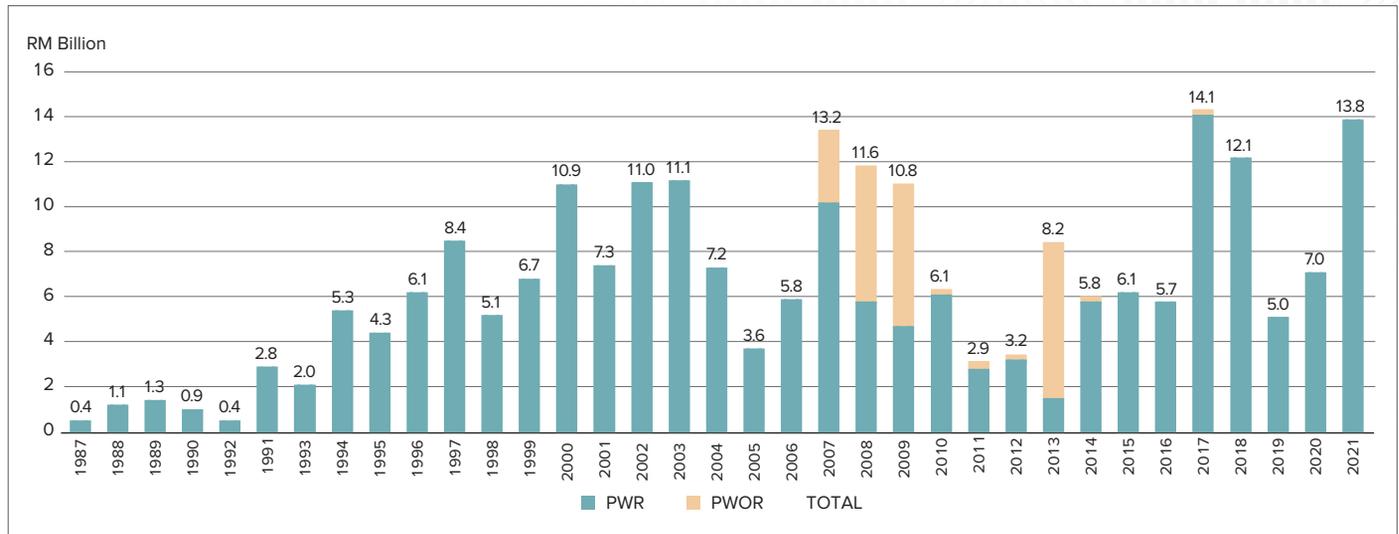
As at end December 2021, total foreign holdings of Government papers stood at 25.9% (December 2020: 24.9%) comprising 39.4% and 10.5% for MGS and MGII respectively. There is an increase of RM31.9 billion in total holdings by foreigners in Government papers in 2021, bringing total holdings to RM234.0 billion.

### PURCHASE OF LOANS AND FINANCING

Cagamas recorded RM13.8 billion purchases of loans and financing under the PWR scheme (2020: RM7.0 billion). Cagamas' net outstanding loans and financing increased by 8.4% to RM36.0 billion (2020: RM33.2 billion). As at the end of 2021, residential mortgages dominated Cagamas' portfolio at 94.3% (2020: 98.0%), followed by personal loan financing at 4.1% (2020: nil) and hire purchase financing at 1.6% (2020: 2.0%). Cagamas' Islamic asset portfolio against conventional assets decreased to a ratio of 42:58 (2020: 45:55), while PWR and PWOR loans and financing portfolios were at 74% and 26%<sup>4</sup> respectively (2020: 68% and 32% respectively). Gross impaired loans and financing under the PWOR scheme stood at 0.54% (2020: 0.61%), while net impaired loans and financing was at 0.07% (2020: 0.09%).

<sup>4</sup> Gross loans and financing before loan loss provision and accretion

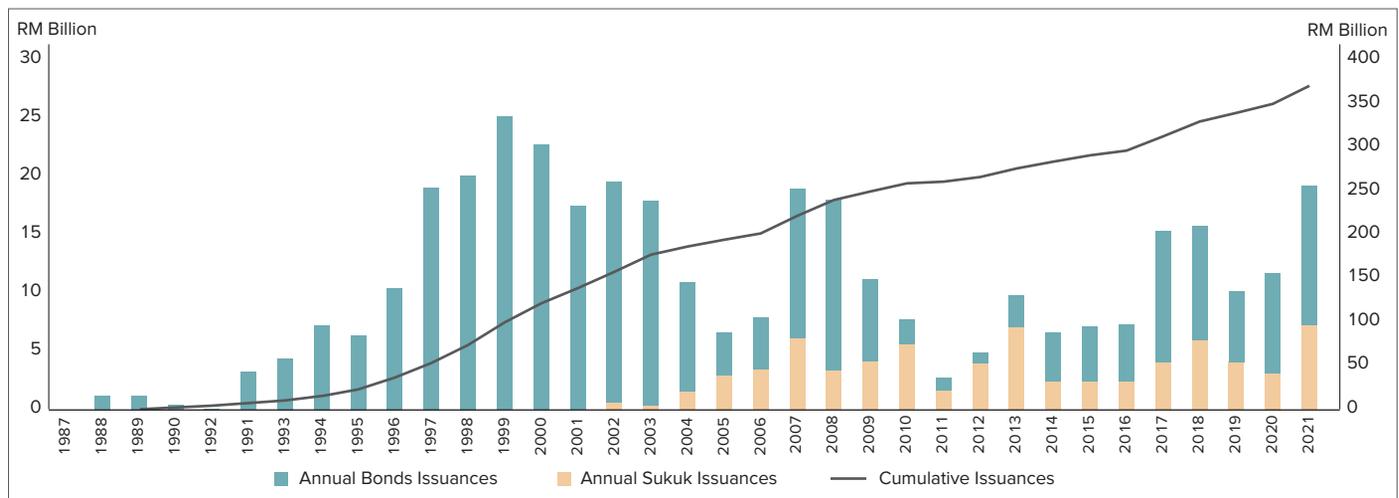
**Chart 3**  
Cagamas' Annual Purchases, 1987-2021



**ISSUANCE OF CAGAMAS BONDS AND SUKUK**

Since 1987 until end 2021, Cagamas and its subsidiaries, namely Cagamas Global P.L.C. and Cagamas Sukuk Berhad, had cumulatively issued a total of RM358.7 billion equivalent of corporate bonds and sukuk, of which RM69.1 billion or 19.3% comprised sukuk and RM12.9<sup>5</sup> billion equivalent or 3.6% was from FCY issuances.

**Chart 4**  
Cagamas' Annual Issuances, 1987-2021



<sup>5</sup> Foreign currency issuances of RM12.9 billion valued as at issue dates

**Business Review** (Continued)

In 2021, Cagamas had successfully issued RM19.2 billion worth of bonds and sukuk, marking the Company’s fifth consecutive year surpassing RM10.0 billion worth of issuances. The total issuances of RM19.2 billion in 2021 also represented the largest issuance in a single year since 2002.

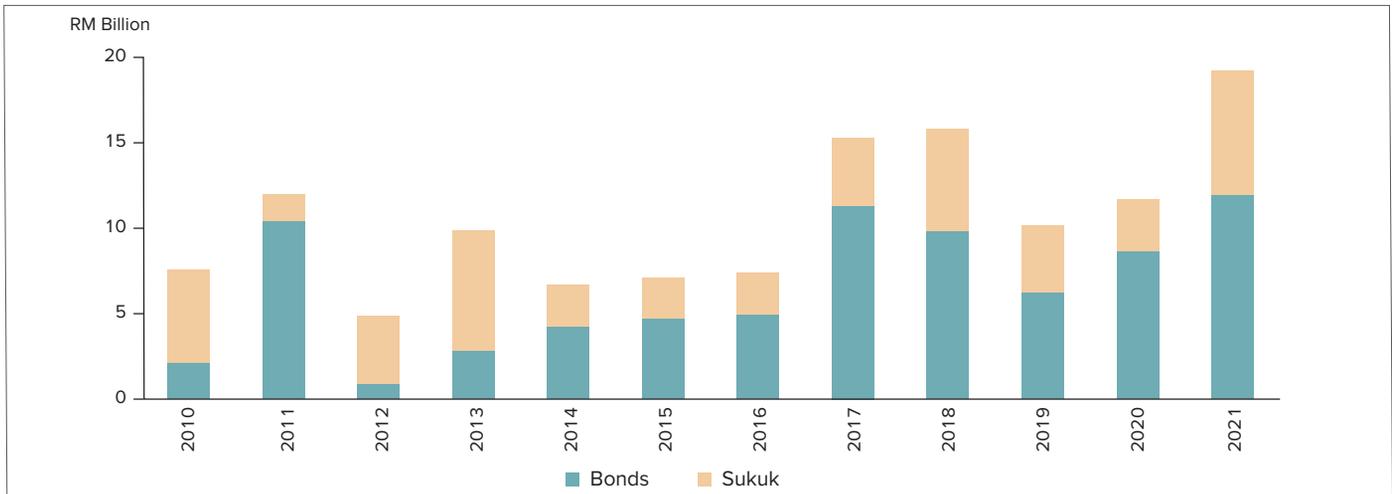
Following from its inaugural sustainability issuance in 2020, the Company had in 2021 continued its sustainability journey by successfully issuing an ASEAN Sustainability SRI Sukuk worth RM100 million for affordable housing under the existing RM60 billion Conventional and Islamic Medium Term Notes Programme. Cagamas also continued to issue its ASEAN Sustainability bonds totaling RM600 million to support both affordable housing and eligible SME loans. These issuances are consistent with Cagamas’ aspiration to contribute further in deepening Malaysia’s sustainable

finance markets and provide investors with a unique proposition that combines exceptional credit quality with social impact.

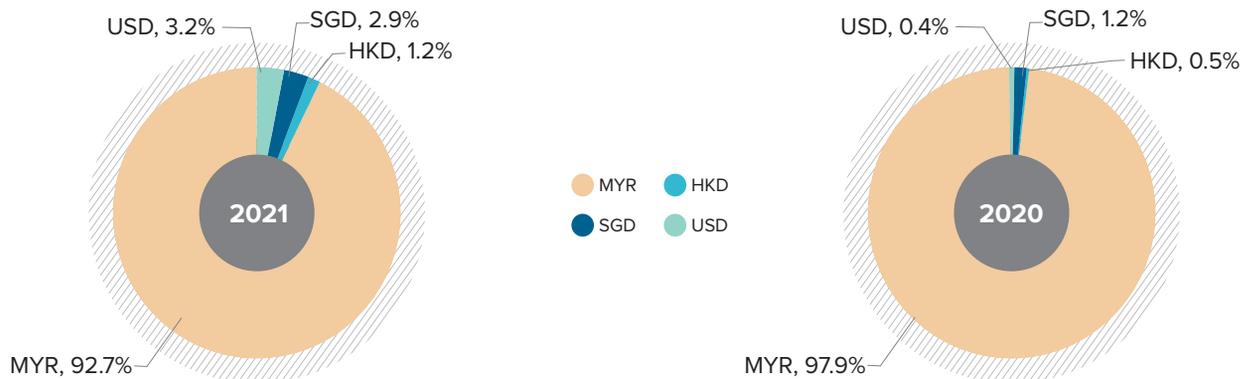
Cagamas also concluded six foreign currency issuances during the year in Singapore Dollar (“SGD”), Hong Kong Dollar (“HKD”) and US Dollar (“USD”) amounting to a total of RM2.56 billion equivalent.

In terms of issuance tenure, 49% of total issuances in 2021 amounting to RM9.5 billion were for tenures of one year and below (2020: 87% or RM10.1 billion) while 49% or RM9.4 billion were for tenures of between one to three years (2020: 13% or RM1.6 billion). The balance of 2% or RM350 million was for tenures above three years in 2021 (2020: nil).

**Chart 5**  
**Annual Bonds and Sukuk Issuances, 2010-2021**



**Chart 6**  
**Outstanding Bonds/Sukuk by Currency, 2020 & 2021**



In terms of the most traded local corporate bonds and sukuk in 2021, Cagamas ranked fifth with a total traded volume of RM4.1 billion, commanding a market share of 3.2% (2020: ranked seventh, RM3.8 billion or 2.5%). Cagamas recorded a total traded volume of RM1.6 billion for local conventional corporate bonds, comprising a market share of 10.2% (2020: RM851.0 million or 5.7%) whereas for local corporate sukuk, Cagamas recorded a total traded volume of RM2.5 billion, with a market share of 2.2% (2020: RM2.9 billion or 2.1%).

As at end December 2021, outstanding Cagamas debt securities stood at RM35.0 billion where RM32.4 billion or 93% was in local currency and RM2.6 billion equivalent or 7% was denominated in foreign currencies. Conventional bonds comprised RM20.0 billion or 58% of the total outstanding while the remaining RM15.0 billion or 42% 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 18.1% of outstanding AAA-rated bonds and sukuk.

## CREDIT RATING

For 2021, Cagamas' had its credit ratings successfully reaffirmed by 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 Malaysia's sovereign ratings. RAM Rating Services Berhad ("RAM Ratings") assigned Cagamas' Global, ASEAN and national-scale corporate credit ratings at gA2/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<sub>IS</sub>/MARC-1<sub>IS</sub>, respectively. Reaffirmation of these ratings reflects Cagamas' ability to continue 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**

	Rating Agency		
	Moody's	RAM Ratings	MARC
<b>Cagamas Berhad</b>	A3	gA2/Stable/gP1, seaAAA/Stable/seaP1, AAA/Stable/P1	AAA/MARC-1, AAA <sub>IS</sub> /MARC-1 <sub>IS</sub>

## 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, enabling home ownership without having the need to pay a down payment through SRP. This is in line with the Government's aspirations of increasing home ownership amongst the "rakyat".

As at 31 December 2021, CSRP's cumulative guarantee exposure to the SRP scheme is RM1,528.5 million as compared with RM992.8 million in 2020. In addition, the outstanding cumulative exposure to Skim Perumahan Belia ("SPB") which has been discontinued in 2020, stands at RM177.4 million.

The value and number of new loans and financing approved with guarantee cover under SRP have increased, mainly due to greater public awareness of the schemes through the 25 participating FIs as well as the continuous support from the Government in providing more affordable homes. For 2021, the total value of new loans and financing approved for SRP was RM4.9 billion which translates to 20,485 individuals/households.

Since the launch of SRP and SPB in 2011 and 2015 respectively, CSRP has provided guarantees for housing loans and financing totalling RM16.0 billion enabling 72,475 individuals/households to own their first home, of which 89% are from the B40 segment.

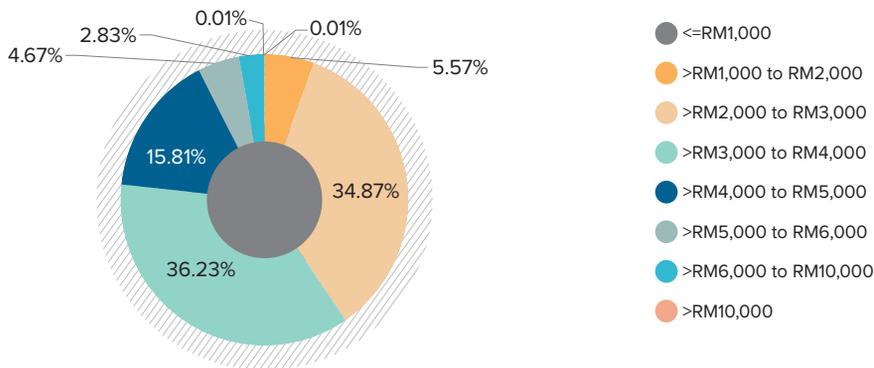
Business Review (Continued)

Table 2 Skim Rumah Pertamaku and Skim Perumahan Belia

	2011-2020	2011-2021	Growth
<b>(RM'mil)</b>			
<b>Guaranteed Exposure</b>	<b>1,170.8</b>	<b>1,705.9</b>	<b>+45.7%</b>
SRP	992.8	1,528.5	+54.0%
SPB	178.1	177.4	-0.4%
<b>(RM'mil)</b>			
<b>Loans and Financing Value</b>	<b>11,087.5</b>	<b>15,752.1</b>	<b>+42.0%</b>
SRP	9,207.2	14,078.7	+52.9%
SPB	1,880.3	1,873.4	-0.4%
<b>Number of Loans and Financing Approved</b>	<b>52,023</b>	<b>72,475</b>	<b>+39.3%</b>
SRP	43,384	63,869	+47.2%
SPB	8,639	8,606	-0.4%

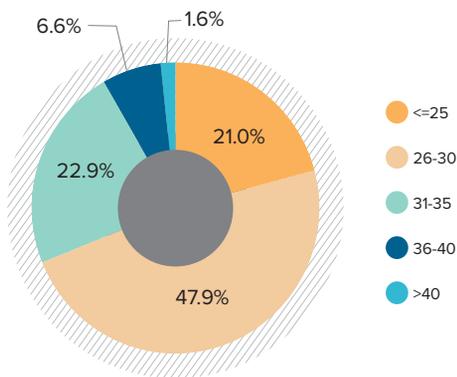
Note: Latest figures may differ with previous reporting due to revisions requested by counterparties

Chart 7  
SRP: Salary Range by Number of Loans



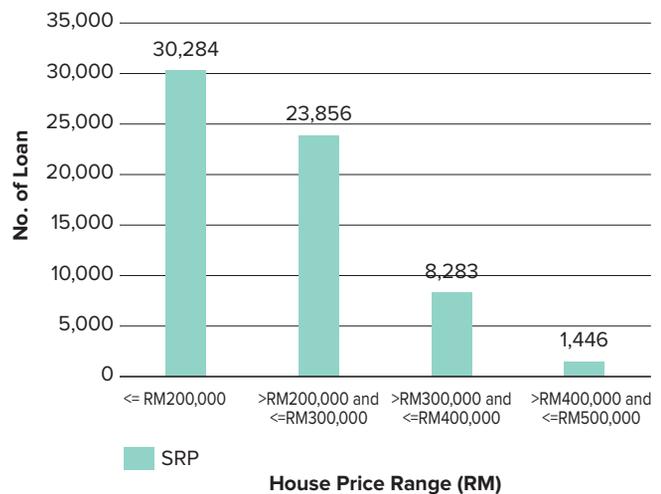
Data as at 31 December 2021

Chart 8  
SRP: Age Range by Number of Loans



Data as at 31 December 2021

Chart 9  
SRP: House Price Range by Number of Loans



Data as at 31 December 2021

## SECURITISATION

As at end 2021, 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.

## CAPITAL MANAGEMENT SOLUTIONS

As part of Cagamas' role in providing innovative risk and capital management solutions to financial institutions, in 2021 Cagamas has subscribed to RM355 million of subordinated debt issuances by financial institutions under its Capital Management Solutions. This would enable financial institutions to lock-in long-term unsecured funding taking into consideration on the outlook of the interest rate environment, their expansion plans as well as diversifying their funding base.

## FUTURE DEVELOPMENTS IN CAGAMAS' BUSINESS

The pandemic has proven to be an unprecedented catastrophe for the whole world, impacting domestic and global economy along its way. Despite these challenges, Cagamas has and will continue to innovate and explore new opportunities aligned with its mandate, core missions and social objectives whilst, enhancing its role as a liquidity and capital management solution provider to financial institutions. In addition, Cagamas looks to play a key role in assisting the Government to promote homeownership, aligned with the one family one home aspiration as well as to undertake a developmental role as defined under its mandate, leveraging on its expertise to provide ideas for solutions.

With the climate change agenda high in the Government's priorities as seen in recent announcements, Cagamas' successful conclusion of ASEAN Sustainability Bonds and ASEAN Sustainability SRI Sukuk amounting to a total of MYR700 million in 2021 reaffirms its commitment towards the environment and the nation. Cagamas also plans to develop a green financing methodology for financing of Green housing and home improvement, ultimately paving for the issuance of sustainability bonds and sukuk aimed at attracting green and socially responsible investors.

Moving forward, Cagamas will continue to introduce solutions to meet the needs of the nation such as the planned expansion and further enhancement on the newly launched Skim Saraan Bercagar, Cagamas' Reverse Mortgage Programme as well as providing liquidity and structured funding solutions to the forthcoming establishment of digital banks. Cagamas also intends to expand and diversify its investor profile by issuing retail bonds, and focus on providing liquidity support for SME financing via capital market solutions.

Garnering global recognition as an advocate and thought leader in mortgage refinancing and Islamic finance, Cagamas will continue to play an important role within the International Secondary Mortgage Market Association as well as the Asian Secondary Mortgage Market Association in supporting the development of secondary mortgage market institutions globally. Cagamas will continue to spearhead in enhancing regional and global development of secondary mortgage markets by actively participating in international speaking circuits, advocating Islamic finance, capital markets and housing finance.