

BUSINESS REVIEW



KEY HIGHLIGHTS IN 2022



RM19.3 billion

New record high for Purchase With Recourse on the back of challenging operating environment



Introduced Skim Saraan Bercagar Islamik, the world's first Islamic reverse mortgage programme

and expanded product coverage across major city centres in Malaysia



RM24.9 billion

Total funds raised with more than 90% dominated by domestic issuances of bonds and sukuk



RM200 million

Concluded Malaysia's first floating rate bond based on MYOR reference rate



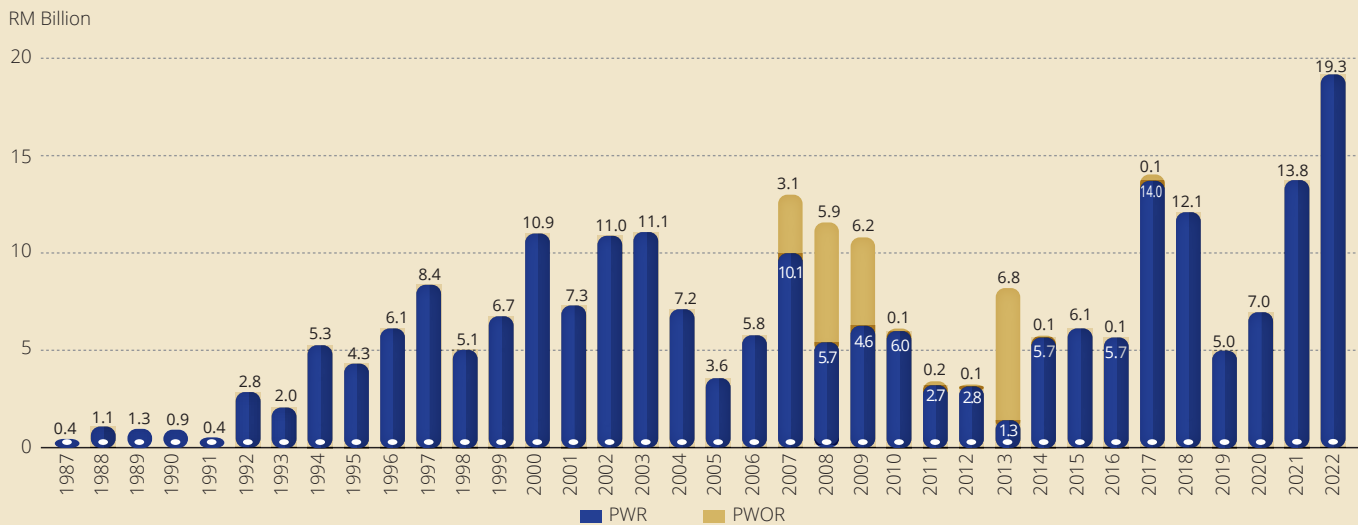
RM1.6 billion

Total sustainability and social-related bonds and sukuk issuances, more than doubled from last year's issuances

PURCHASE OF LOANS AND FINANCING

Cagamas Berhad (“Cagamas”) registered new record high purchases of loans and financing under the Purchase With Recourse (“PWR”) scheme at RM19.3 billion in 2022 (2021: RM13.8 billion). There were no Purchase Without Recourse (“PWOR”) purchases during the year. Cagamas’ net outstanding loans and financing increased by 11.9% to RM40.3 billion (2021: RM36.0 billion) mainly backed by residential mortgages which dominated Cagamas’ portfolio at 93.0% (2021: 94.3%), followed by personal loan financing at 5.9% (2021: 4.1%) and hire purchase financing at 1.1% (2021: 1.6%). Cagamas’ Islamic asset portfolio against conventional asset portfolio increased to a ratio of 49:51 (2021: 42:58), while PWR and PWOR loans and financing portfolio were at 79.5% and 20.5%⁴ respectively (2021: 74.3% and 25.7% respectively). Gross and net impaired loans and financing under the PWOR scheme stood at 0.45%⁵ (2021: 0.54%) and 0.06%⁵ (2021: 0.07%) respectively.

Chart 2
Annual Asset Purchases, 1987-2022



SECURITISATION

As at end 2022, total outstanding Cagamas MBS Berhad’s (“CMBS”) mortgage-backed securities stood at RM0.7 billion out of the total issuances of RM10.2 billion, comprising RM0.4 billion of conventional bonds and RM0.3 billion of sukuk. The outstanding CMBS bonds and sukuk are expected to mature in stages and be fully redeemed by August 2027. During the year, there were no new securitisation transactions.

CAPITAL MANAGEMENT SOLUTIONS

As part of Cagamas’ role in providing innovative risk and capital management solutions to financial institutions (“FIs”) to lock-in long term unsecured funding, the outstanding subordinated debt issuances by FIs under Cagamas’ Capital Management Solutions (“CMS”) in 2022 was RM1.8 billion (December 2021: RM0.4 billion). Although CMS is viewed to be riskier due to its unsecured and subordinated features, Cagamas has put in place risk controls for subscription amount, credit rating and concentration limits in order to quantify and limit the associated risk.

⁴ Gross loans and financing before loan loss provision and accretion

⁵ Gross and net impaired loans included the accretion of discount

BUSINESS REVIEW (continued)

MORTGAGE GUARANTEE

Cagamas SRP Berhad (“Cagamas SRP”) offers mortgage guarantee as a “first loss” protection on the residential mortgage home financing portfolio of 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 make a down payment through *Skim Rumah Pertamaku* (“SRP”). This is in line with the Government’s aspirations to increase home ownership amongst the “*rakyat*”.

As at 31 December 2022, Cagamas SRP’s cumulative guarantee exposure to the SRP scheme was RM2,292.8 million as compared with RM1,528.5 million in 2021. In addition, the outstanding cumulative exposure to *Skim Perumahan Belia* (“SPB”) which has been discontinued in 2020, stood at RM177.4 million.

The value and number of new loans and financing approved with guarantee cover under SRP have increased, owing primarily to

greater public awareness of the scheme through multiple roadshows in support of the Ministry of Local Government Development (*Kementerian Pembangunan Kerajaan Tempatan*, “KPKT”) throughout 2022. SRP was also listed as one of the financing schemes offered under the *Inisiatif Pembiayaan Perumahan Malaysia* (“i-Biaya”) which was launched by the Government through KPKT on 14 April 2022 as part of the Government’s efforts to facilitate the M40 and B40 low-income groups to own homes. In 2022, the total value of new loans and financing approved for SRP was RM7 billion benefitting 27,465 individuals/households.

Since the launch of SRP and SPB in 2011 and 2015 respectively, Cagamas SRP has provided guarantees for housing loans and financing totalling RM23 billion enabling 99,940 individuals/households to own their first home, of which 88.2% are from the B40 segment.

Table 1
Skim Rumah Pertamaku (“SRP”)

	2011-2021	2011-2022	Growth
Guarantee Exposure (RM’mil)	1,528.5	2,292.8	+50.0%
Loans and Financing Value (RM’mil)	14,078.7	21,072.0	+49.7%
Number of Loans and Financing Approved	63,869	91,334	+43.0%

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

Chart 3
SRP: Income Range by Number of Loans

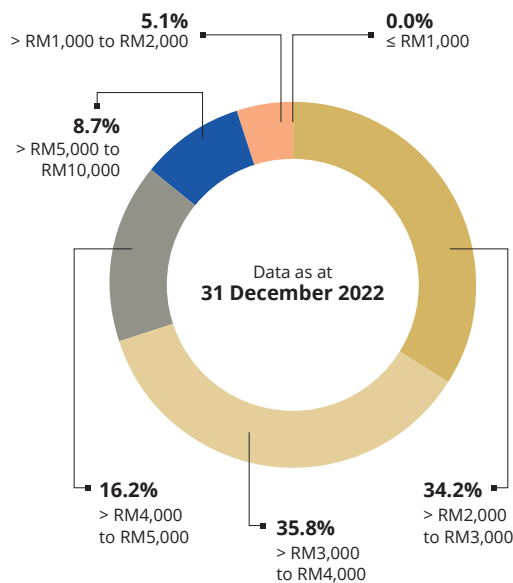


Chart 4
SRP: Age Range by Number of Loans

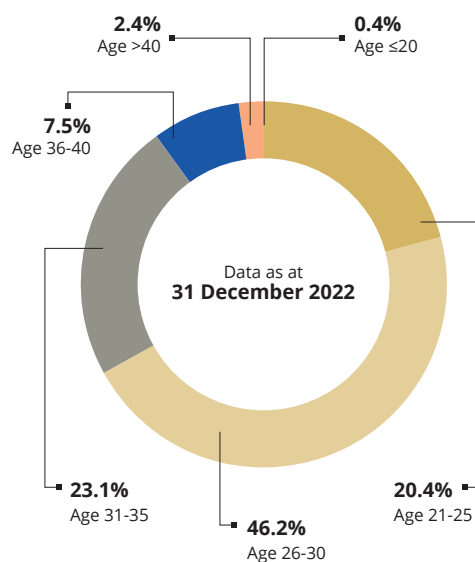
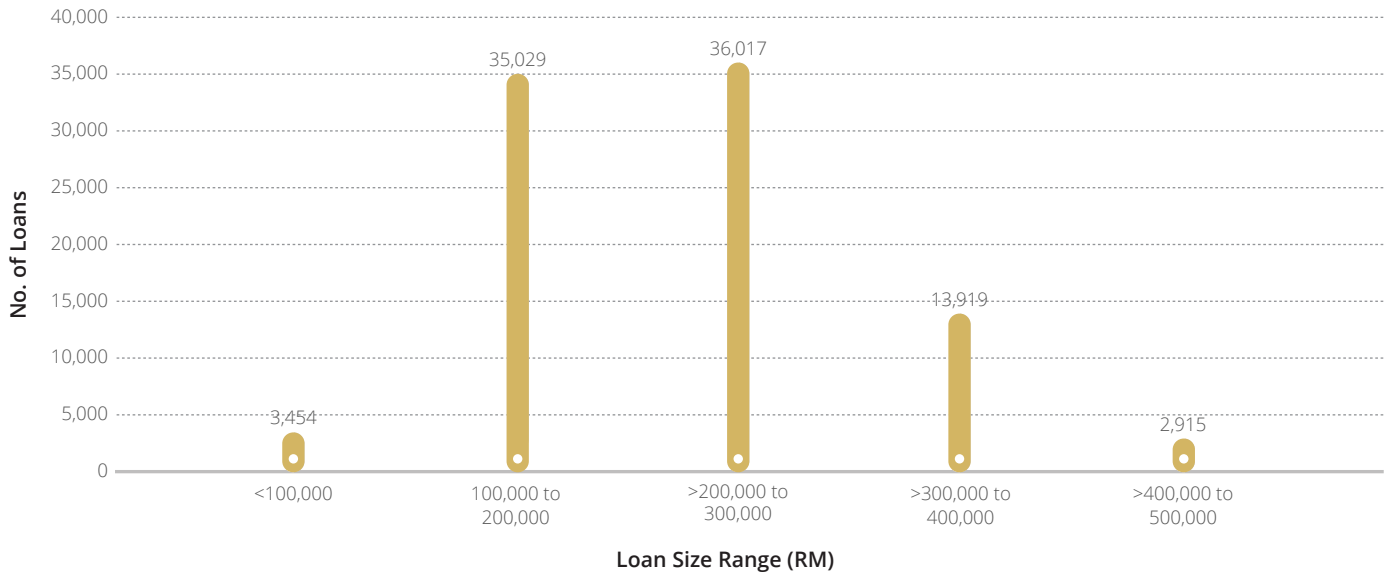


Chart 5
SRP: Loan Size Range by Number of Loans (as at 31 December 2022)



REVERSE MORTGAGE

Cagamas’ reverse mortgage programme known as Skim Saraan Bercagar (“SSB”) allows senior homeowners to convert their home equity in exchange for a steady stream of monthly income and provides a form of social security to the elderly homeowners for retirement. Cagamas allocated RM100 million from its internal funds to support this initiative.

In October 2022, Cagamas introduced Skim Saraan Bercagar Islamik (“SSB-i”), the world’s first Islamic reverse mortgage programme and expanded the SSB and SSB-i schemes beyond Klang Valley to include Johor Bahru, Penang Island, Ipoh, Malacca City and Seremban. In addition, to improve customer experience through digitalisation, an online application is now available through Cagamas’ SSB website.

With the various new developments made in 2022, a higher take-up rate is expected as more retirees will be able to benefit from SSB and SSB-i. As of December 2022, the SSB programme has approved 25 loans applications totalling RM24.3 million.

ISSUANCE OF BONDS AND SUKUK

Since 1987 until end 2022, Cagamas Holdings Berhad and its subsidiaries had cumulatively issued a total of RM391.9 billion equivalent of corporate bonds and sukuk, of which RM83.4 billion or 21.3% comprised of sukuk and RM14.9⁶ billion equivalent or 3.8% in Foreign Currency (“FCY”) issuances.

In 2022, Cagamas had raised a total fund of RM24.9 billion (2021: RM19.2 billion) with RM22.4 billion through debt securities and RM2.5 billion from other funding sources⁷. More than 90% of Cagamas’ total borrowings are primarily dominated by domestic issuances with the balance being in FCY from six (6) SGD issuances. Despite the volatility in the foreign exchange market, Cagamas had successfully issued bonds totalling SGD615 million⁸ in 2022, which are fully hedged, signalling continued investors’ interest in the Company’s FCY papers. Although issuances have been dominated by local currencies to date, Cagamas remains focused on selecting the most competitive and optimal funding options from both local and foreign currencies.

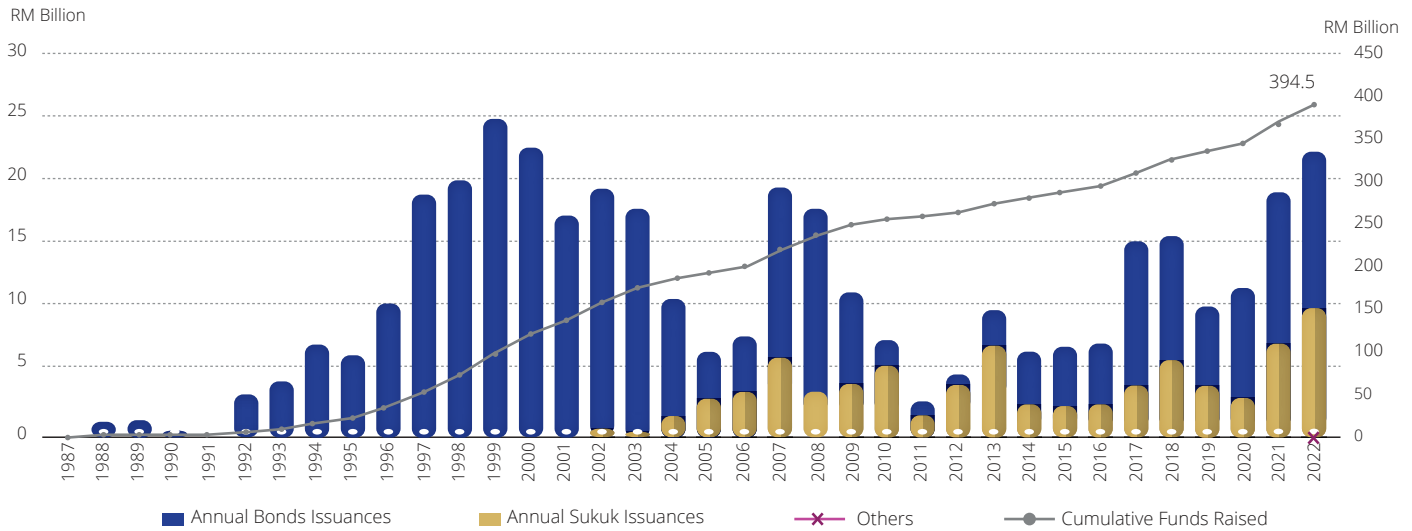
⁶ Foreign currency issuances of RM14.9 billion equivalent valued as at issue date

⁷ Includes repurchase agreements and interbank borrowings

⁸ Equivalent RM1.98 billion as at issue dates

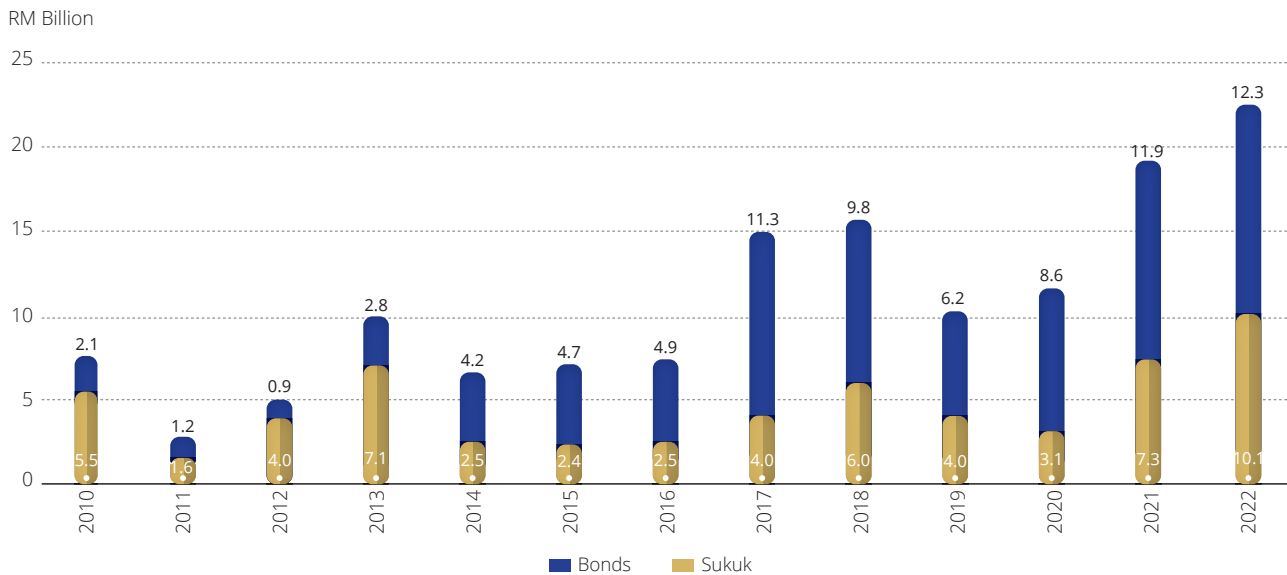
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Chart 6
Annual Funds Raised, 1987-2022



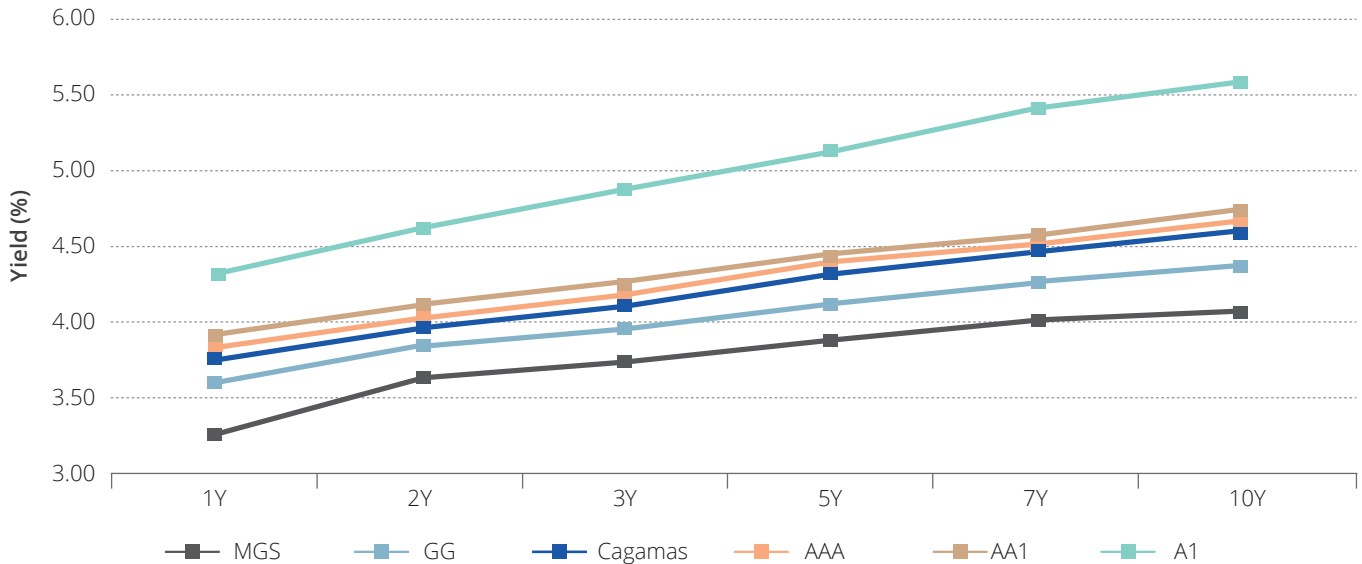
During the year, the Company successfully concluded a landmark transaction amounting to RM200 million, which represents Malaysia's and Cagamas' first ever bonds to be priced against Malaysia Overnight Rate ("MYOR"), the new Alternative Reference Rate for Malaysia, launched by BNM in September 2021. The issuance is an important step in driving the adoption of new benchmark rates for financial instruments in Malaysia and reflects the continued strong commitment by Cagamas to support new market developments.

Chart 7
Annual Bonds and Sukuk Issuances, 2010-2022



Cagamas yields continued to track the MGS yield curve which climbed significantly higher following the bearish global bond market. Cagamas 1-year, 2-year, 3-year and 5-year yields were higher by 172 bps, 127 bps, 95 bps and 81 bps respectively by 31 December 2022 as compared to its levels at the beginning of the year.

Chart 8
Bond Yield Comparison (Government and Corporate Papers as at 31 December 2022)



In terms of issuance tenure, 30.6% of total issuances in 2022 amounting to RM6.8 billion were for tenures of one year and below (2021: 49.4% or RM9.5 billion) while 36.4% or RM8.1 billion were for tenures of between one to three years (2021: 48.8% or RM9.4 billion). The balance of 33.0% or RM7.4 billion were for tenures above three years (2021: 1.8% or RM0.4 billion).

As at end December 2022, outstanding Cagamas debt securities stood at RM40.2 billion where RM37.2 billion or 92.5% was in local currency and RM3.0 billion equivalent or 7.5% was denominated in foreign currencies. Conventional bonds comprised RM20.2 billion or 50.2% of the total outstanding while the remaining RM20.0 billion or 49.8% were sukuk. Cagamas remained as one of the largest issuers of corporate bonds and sukuk in the Malaysian market, accounting for 4.5% of the total outstanding corporate bonds and sukuk and 18.1% of outstanding AAA-rated bonds and sukuk.

Chart 9
Issuances Tenure, 2021 & 2022

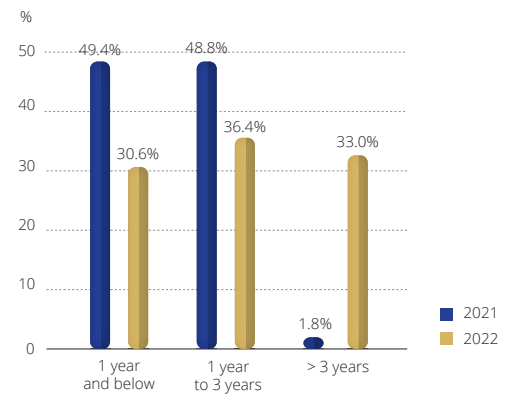
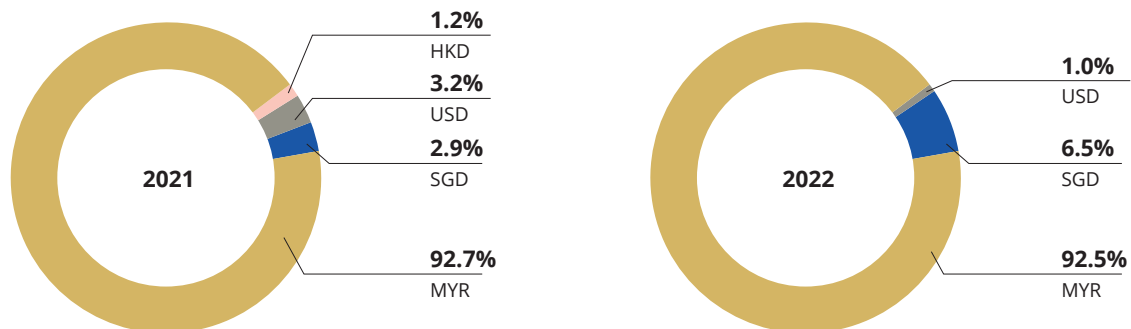


Chart 10
Outstanding Bonds/Sukuk by Currency, 2021 & 2022



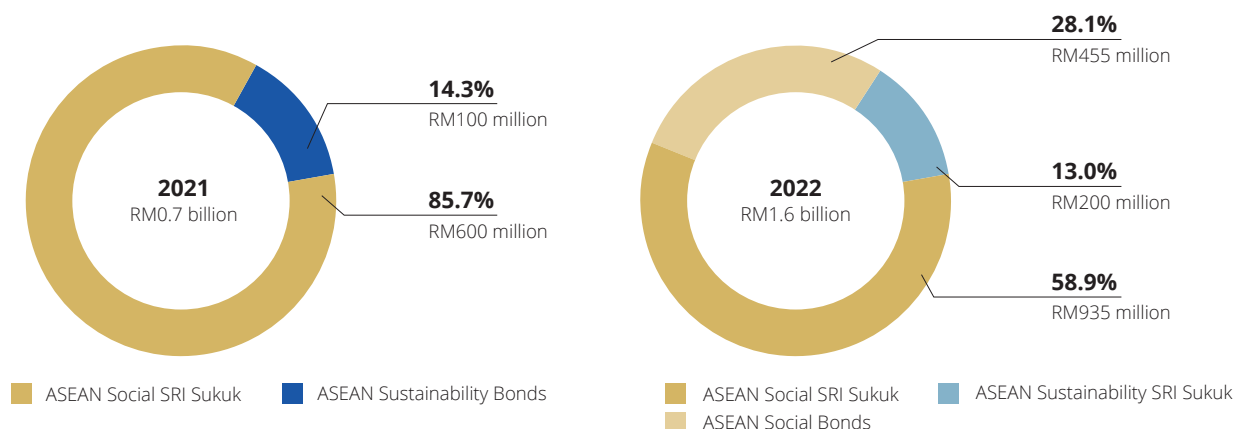
BUSINESS REVIEW (continued)

In terms of the most traded local corporate bonds and sukuk, Cagamas ranked third with a total traded volume of RM4.3 billion, commanding a market share of 4.7% (2021: ranked fifth, RM4.1 billion or 3.2%). Cagamas recorded the highest traded local conventional corporate bonds, with total traded volume of RM1.7 billion for a market share of 16.4% (2021: ranked fourth, RM1.6 billion or 10.2%) whereas for local corporate sukuk, Cagamas ranked fourth with total traded volume of RM2.6 billion, with a market share of 3.2% (2021: RM2.5 billion or 2.2%).

SUSTAINABILITY/ SOCIAL BONDS AND SUKUK ISSUANCES

Since 2020, a total of RM2.5 billion sustainability/social bonds and sukuk were issued to purchase loans and financing extended for affordable housing and eligible non-carbon emission industrial hire-purchase loans for Small Medium Enterprises (“SMEs”). This includes issuances of RM700 million of ASEAN Sustainability Bonds, RM400 million of ASEAN Sustainability SRI Sukuk, RM455 million of ASEAN Social Bonds and RM935 million of ASEAN Social SRI Sukuk. In 2022, a total of RM1.6 billion (2021: RM0.7 billion) of sustainability/ social bonds and sukuk have been issued to purchase loans and financing extended for affordable housing.

Chart 11
Sustainability/ Social Bonds and Sukuk Issuances by Type, 2021 & 2022



In-line with the Company’s overall commitment towards embracing sustainability values, the Company has designed and adopted its inaugural Sustainability Investment Framework in 2022, in congruence with the overall Corporate Sustainability Framework. The framework incorporates key principles of selected exclusion sectors and the integration of Environment, Social and Governance (“ESG”) factors as part of the evaluation and overall consideration to invest in sustainable assets.

CREDIT RATING

For 2022, 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, on par 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, MARC Ratings Berhad (“MARC Ratings”) assigned Cagamas’ bonds and sukuk issues ratings at $AAA/MARC-1$ and $AAA_{IS}/MARC-1_{IS}$, respectively. Reaffirmation of these ratings reflects Cagamas’ track record of strong capitalisation, robust asset quality and stable profitability resulting in continued support by both domestic and foreign investors for Cagamas’ bonds and sukuk issuances.

Table 2
Credit Ratings

	Rating Agency		
	Moody’s	RAM Ratings	MARC Ratings
Cagamas Berhad	A3	$gA2/Stable/gP1$, $seaAAA/Stable/seaP1$ $AAA/Stable/P1$	$AAA/MARC-1$, $AAA_{IS}/MARC-1_{IS}$

▶ CAGAMAS' PRIORITIES IN 2023

Cagamas anticipates demand for loans and financing including mortgages to remain stable on the back of Malaysia's continued economic growth in 2023 albeit at moderated pace due to the challenging external environment.

Notwithstanding, Cagamas remains committed to its mandate to promote home ownership and to contribute towards the stability of the housing market and financial system through various innovative solutions for its stakeholders while exploring new opportunities that are in line with its core mission and social objectives. Cagamas will continue to support the Government in achieving the nation's home ownership aspirations and undertake its developmental role in the housing space leveraging on its expertise in the housing market. As an advocate and thought leader in mortgage refinancing and Islamic finance, Cagamas will also continue to work towards enhancing mutual development in the secondary mortgage finance market through collaborations and sharing of knowledge and expertise with housing/ mortgage finance corporations in the region.

As one of the pioneers in the market to push for the development of ESG through the establishment of emerging sustainable asset classes via its issuances, Cagamas aims to further strengthen its contribution to the United Nations Sustainable Development Goals ("UNSDGs") through its Sustainability agenda. Cagamas intends to facilitate homeowners to manage the challenge of climate change and support the financial industry's transition to low-carbon economy through the development of industry-recognised methodology for green housing and green home improvement financing in its bid to scale-up green residential mortgages and make energy-efficient homes more mainstream.

