Cagamas Berhad

National Mortgage Corporation

The 3rd ASEAN Fixed Income Summit

Bond Market Development and Liberalization in ASEAN Countries

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President / Chief Executive Officer

19 September 2016

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Establishment of Cagamas in 1986

Prevailing home financing issues during Global recession in 1980s :

Funding mismatch in financial institutions resulting in liquidity crunch	Financial institutions were not lending to homebuyers despite demand	Limited funding source in the market ï no bond market

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

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

Mandates given by the Central Bank :

- Promote home ownership by providing liquidity to the secondary mortgage market
- Spearhead the development of Corporate Bonds and Sukuk market
- Development and promotion of Islamic Finance

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Cagamas at a Glance

Entity Name	Cagamas Berhad
Shareholders	Bank Negara Malaysia (20%) Commercial and Investment Banks (80%)
Credit Rating	AAA by RAM and MARC A3 Stable (Moody's – 2014)
Date of Incorporation	2 December 1986
Business Model of "Match Funded"	▪ 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. ▪ The success of Cagamas' business model has been recognized by other countries as well as the World Bank and the Asian Development Bank ▪ Largest issuer of the domestic Corporate bond and sukuk market after the Government of Malaysia (GOM)

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ASEAN Bond Market Development

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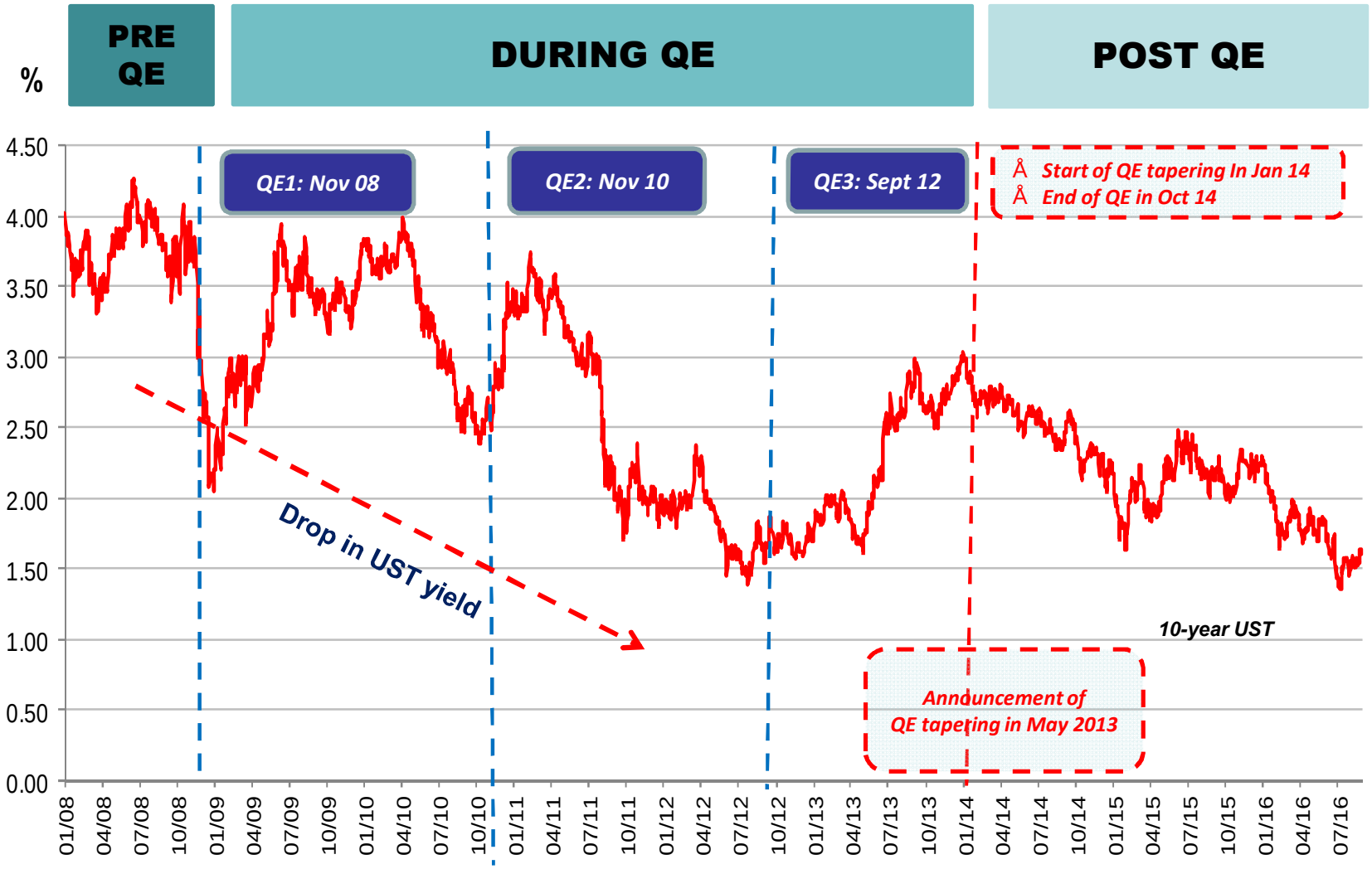
Phases of Quantitative Easing (QE)



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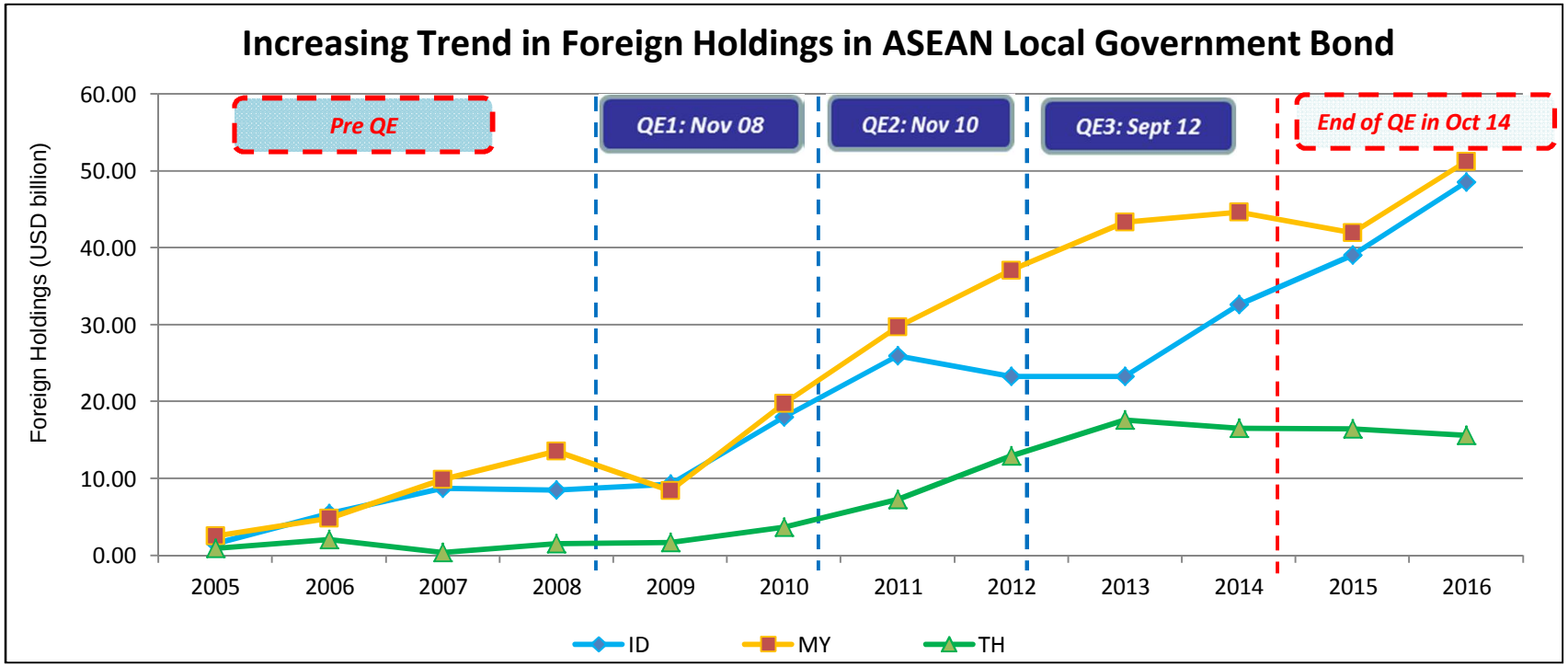
Impact of QE to ASEAN Bond Market

➢ ***Mobilisation of funds from developed nations towards Emerging Market***

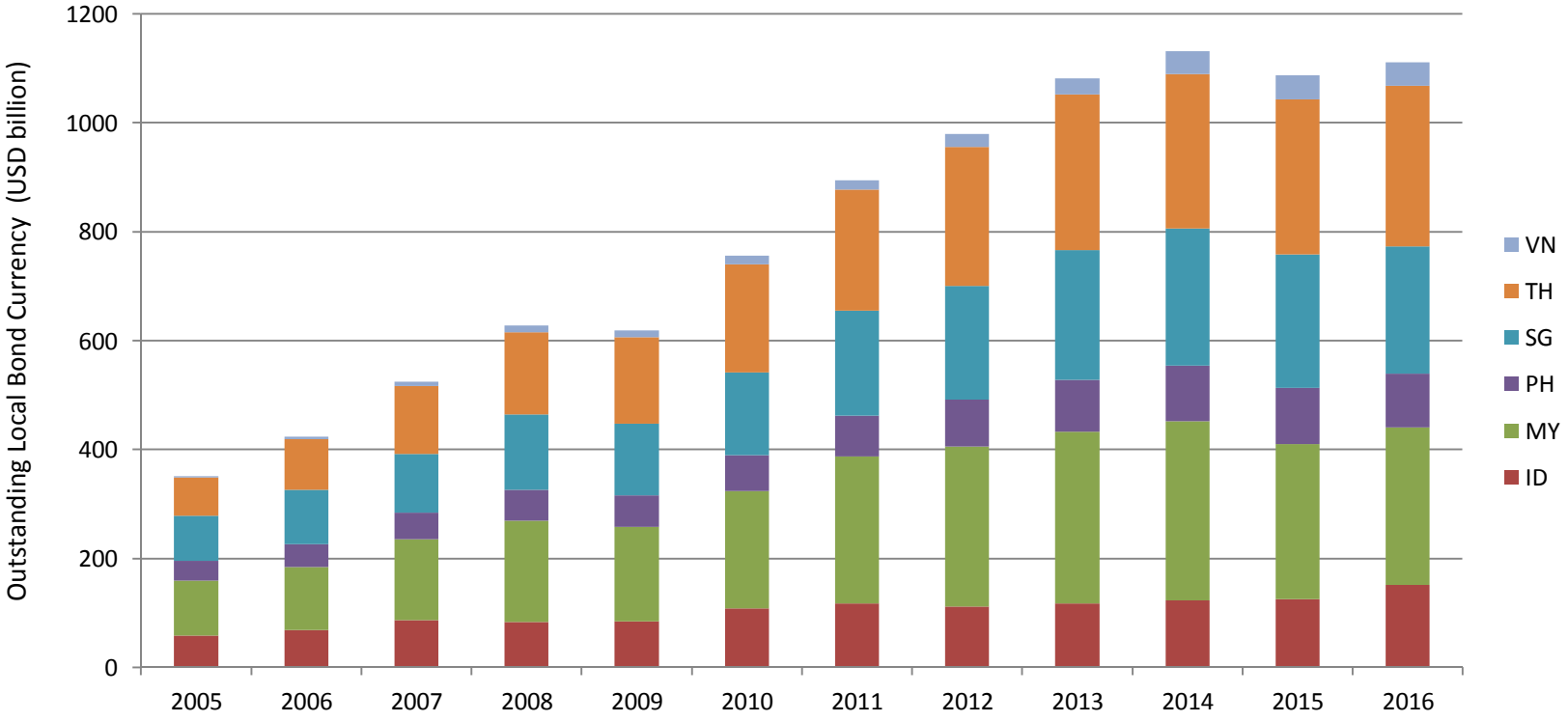


Å Foreign holdings in Local Currency Government Bonds increases at the start of QE since its announcement in November 2008.

Å Evidencing the mobilization of funds from developed nations towards emerging markets as investors were seeking higher yield returns within ASEAN region.

Å Increased acceptability of ASEAN local government bonds by foreign investors as inflows of foreign funds continued to increase despite the end of QE in Oct 2014.

Growth in the ASEAN Local Currency Bond Market



Growth in the size of the ASEAN local currency bond market since implementation of the Quantitative Easing by the US Federal Reserve in November 2008

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Mobilisation of liquidity from local currency sovereign bonds to corporate bonds

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Mobilisation of Liquidity

- With an increase in foreign holdings for local currency government bonds in the ASEAN region, Cagamas saw an opportunity to mobilise funds from government securities to the corporate bond/sukuk space.

- Cagamas embarked into the EMTN space in 2014 to promote its credit profile to foreign investors providing an alternative for investment purposes to a strong credit profile with pick up in yield.

- Cagamas also promotes liquidity of its local currency bonds via strategic initiatives in place:
  - **Reopening Initiative**
  - **Index inclusion**
  - **Bloomberg Pricing Page**

- With growing confidence in Cagamas's credit profile and record setting secondary market liquidity, foreign investor participation has risen in both foreign currency issuances as well as local currency bonds issued.

Establishment of Multicurrency Medium Term Note Programme in 2014

Objectives:

- Enhance the Company's credit profile among international investors
- Achieve competitively priced funding from international liquidity pool
- Widening the Company's investors base and network
- Diversify funding sources
- Funding of potential purchase of non MYR assets
- 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	

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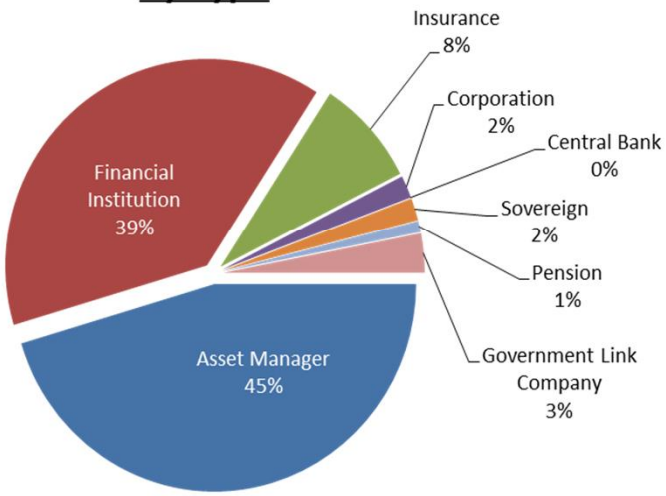
Cagamas' Foreign Currency Issuances

Year of Issuance	Maturity Date	Conventional (mil)	Sukuk (mil)
2014	25-Sep-17	CNH1,500	-
	8-May-18	HKD1,000	-
	10-Dec-19	USD500	-
2015	25-Jun-18	USD100	-
	30-Jul-18	SGD100	-
	26-Sep-16	-	SGD162.75
	27-Nov-17	SGD100	-
2016	3-Mar-17	SGD87	-
	3-Mar-17	SGD43.75	-
	10-Mar-17	-	SGD150

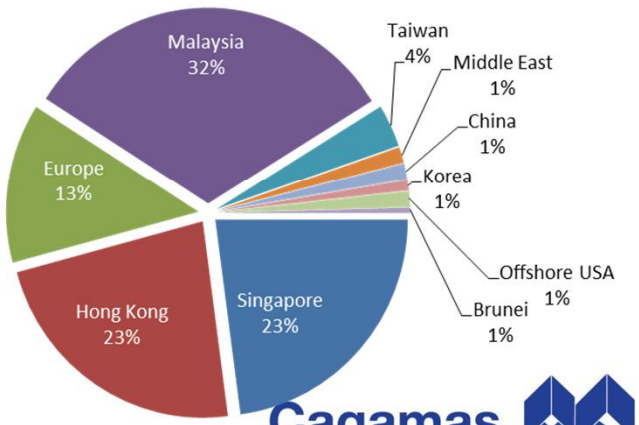
As frequent issuer, Cagamas continues to monitor the comparative funding cost and distribution advantage in the international market against our domestic bond issues.

The incentives to issue 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 but more importantly we feel the dynamics of our funding strategy still hinges on the key factor which is **MARKET LIQUIDITY and VOLATILITY**.

By Type



By Country/Region



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CagamasôInitiatives to Promote Market Liquidity

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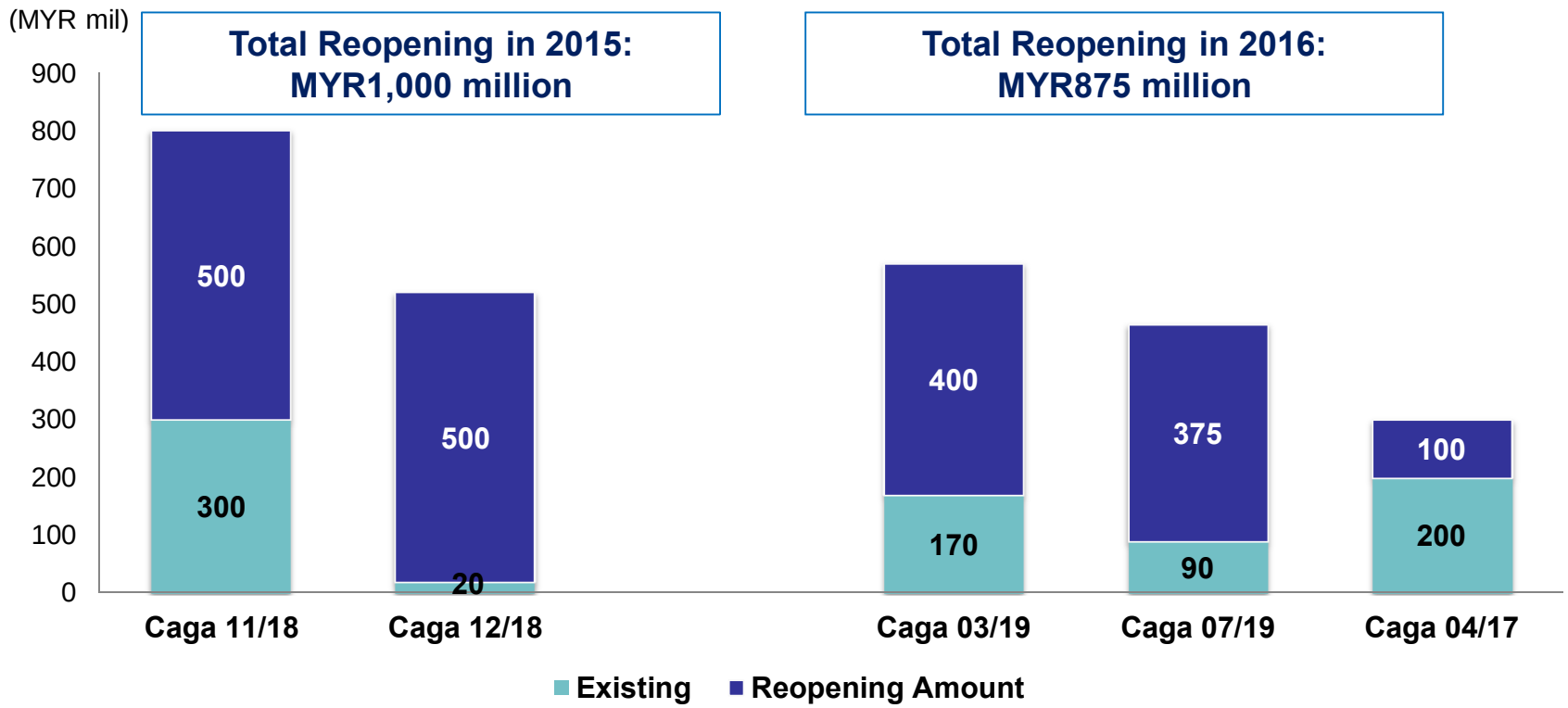
Reopening Initiatives

Enlarged existing tranche size of outstanding bond would encourage trading activity of the reopened stock and promote secondary market liquidity for the paper



- Since 2015, Cagamas has successfully reopened MYR1,875 million of Cagamas MYR debt securities.
- The reopening initiatives are more in demand amongst investors to promote healthier secondary liquidity.
- Enlarged issue size that meet the minimum size pre-requisite for inclusion into influential local currency bond index increases weightage of Cagamas bonds in the indices, thus promoting greater visibility of Cagamas debt securities particularly among international investors.

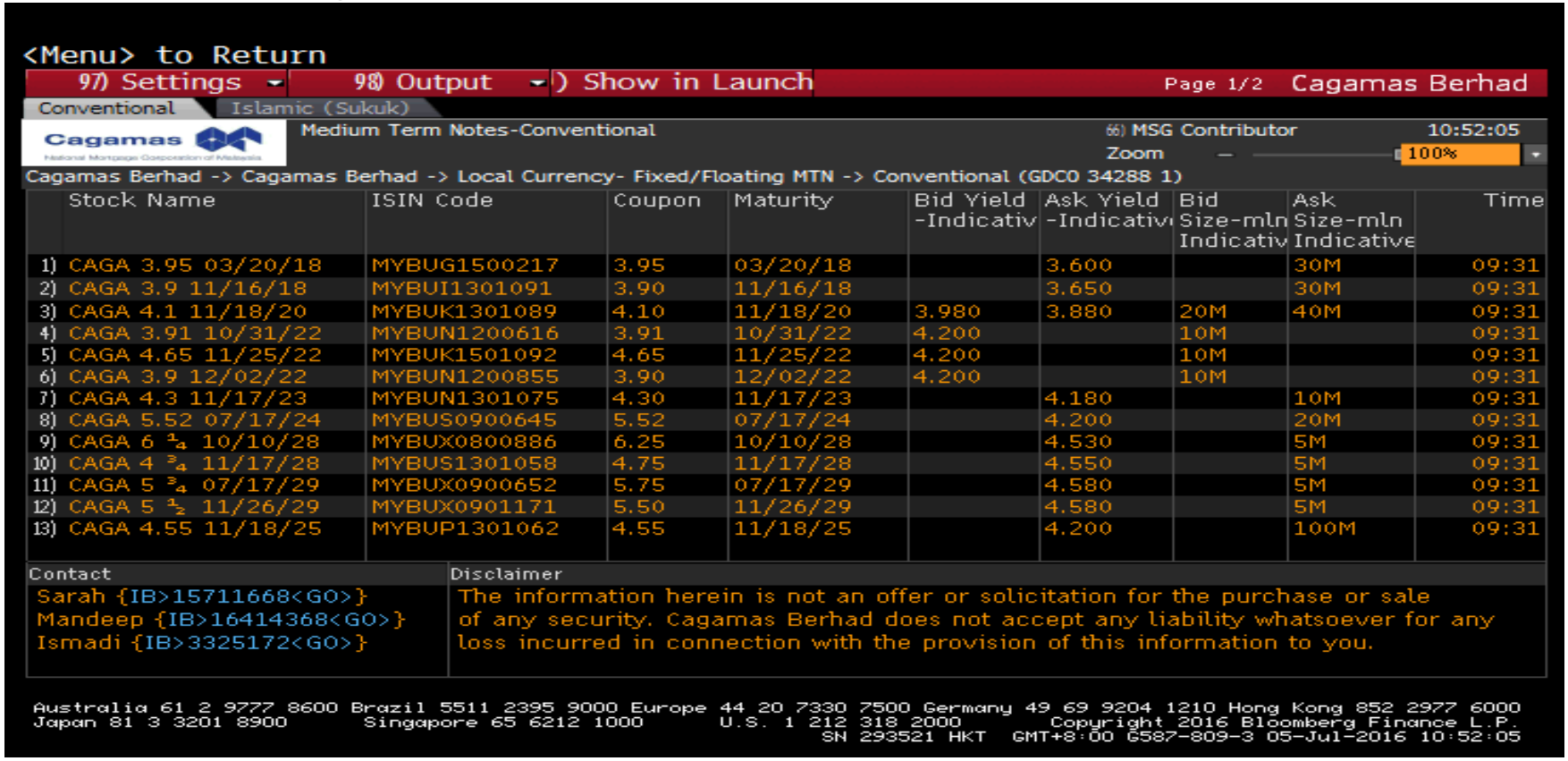
Inclusion of Cagamas Bonds in Benchmark Indices

Cagamas debt securities continue to be included in widely followed global indices

No.	INDICES	MYR	HKD	RMB	USD
1	BofA Merrill Lynch Diversified Local Emerging Markets Non-Sovereign Index (LOCL)	✓		✓	
2	BofA Merrill Lynch Broad Local Emerging Markets Non-Sovereign Index (LCCB)	✓	✓	✓	
3	BofA Merrill Lynch Diversified Broad Local Emerging Markets Non-Sovereign Index (LCCD)	✓		✓	
4	S&P Pan Asia Bond Index	✓			
5	S&P Malaysia Bond Index	✓			
6	Markit iBoxx ALBI Index		✓	✓	
7	S&P Hong Kong Quasi and Foreign Government Bond Index		✓		
8	Barclays Capital Offshore Renminbi (CNH) Bond Index			✓	
9	FTSE-BOCHK Offshore RMB Bond Index Series			✓	
10	FTSE-BOCHK Offshore RMB Investment Grade Bond Index			✓	
11	Citi Dim Sum (Offshore CNY) Bond Index			✓	
12	Barclays Global Aggregate Index				✓
13	J.P Morgan Asia Credit Index (JACI)				✓
14	Citi World Broad Investment-Grade (WorldBIG) Index				✓
15	Citi Asian Broad Bond Index (ABBI)				✓
16	Markit iBoxx Asian USD Dollar Bond Index				✓
17	BofA Merrill Lynch US Emerging Markets Liquid Corporate Plus Index (EMCL)				✓

Cagamas Pricing Page in Bloomberg

Ticker on Bloomberg: "CAGA"



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Conventional | Islamic (Sukuk)

Cagamas — Medium Term Notes-Conventional — 66) MSG Contributor — 10:52:05 — Zoom 100%

Cagamas Berhad -> Cagamas Berhad -> Local Currency- Fixed/Floating MTN -> Conventional (GDCO 34288 1)

	Stock Name	ISIN Code	Coupon	Maturity	Bid Yield -Indicativ	Ask Yield -Indicativ	Bid Size-mln Indicativ	Ask Size-mln Indicative	Time
1)	CAGA 3.95 03/20/18	MYBUG1500217	3.95	03/20/18		3.600		30M	09:31
2)	CAGA 3.9 11/16/18	MYBUI1301091	3.90	11/16/18		3.650		30M	09:31
3)	CAGA 4.1 11/18/20	MYBUK1301089	4.10	11/18/20	3.980	3.880	20M	40M	09:31
4)	CAGA 3.91 10/31/22	MYBUN1200616	3.91	10/31/22	4.200		10M		09:31
5)	CAGA 4.65 11/25/22	MYBUK1501092	4.65	11/25/22	4.200		10M		09:31
6)	CAGA 3.9 12/02/22	MYBUN1200855	3.90	12/02/22	4.200		10M		09:31
7)	CAGA 4.3 11/17/23	MYBUN1301075	4.30	11/17/23		4.180		10M	09:31
8)	CAGA 5.52 07/17/24	MYBUS0900645	5.52	07/17/24		4.200		20M	09:31
9)	CAGA 6 ¼ 10/10/28	MYBUX0800886	6.25	10/10/28		4.530		5M	09:31
10)	CAGA 4 ¾ 11/17/28	MYBUS1301058	4.75	11/17/28		4.550		5M	09:31
11)	CAGA 5 ¾ 07/17/29	MYBUX0900652	5.75	07/17/29		4.580		5M	09:31
12)	CAGA 5 ½ 11/26/29	MYBUX0901171	5.50	11/26/29		4.580		5M	09:31
13)	CAGA 4.55 11/18/25	MYBUP1301062	4.55	11/18/25		4.200		100M	09:31

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- Cagamas Bloomberg pricing page was established in April 2016 being the first issuer to have its own pricing page for accurate price dissemination.
- Established to promote efficient and robust price discovery for establishment of a reliable bonds and sukuk yield curves based on continuously traded prices .
- Increased visibility of Cagamas debt securities pricing especially among the foreign market players attracts more participation from foreign investors and bank traders in local denominated Cagamas papers with the increased secondary market liquidity

Performance of CagamasôBonds and Sukuk 2016

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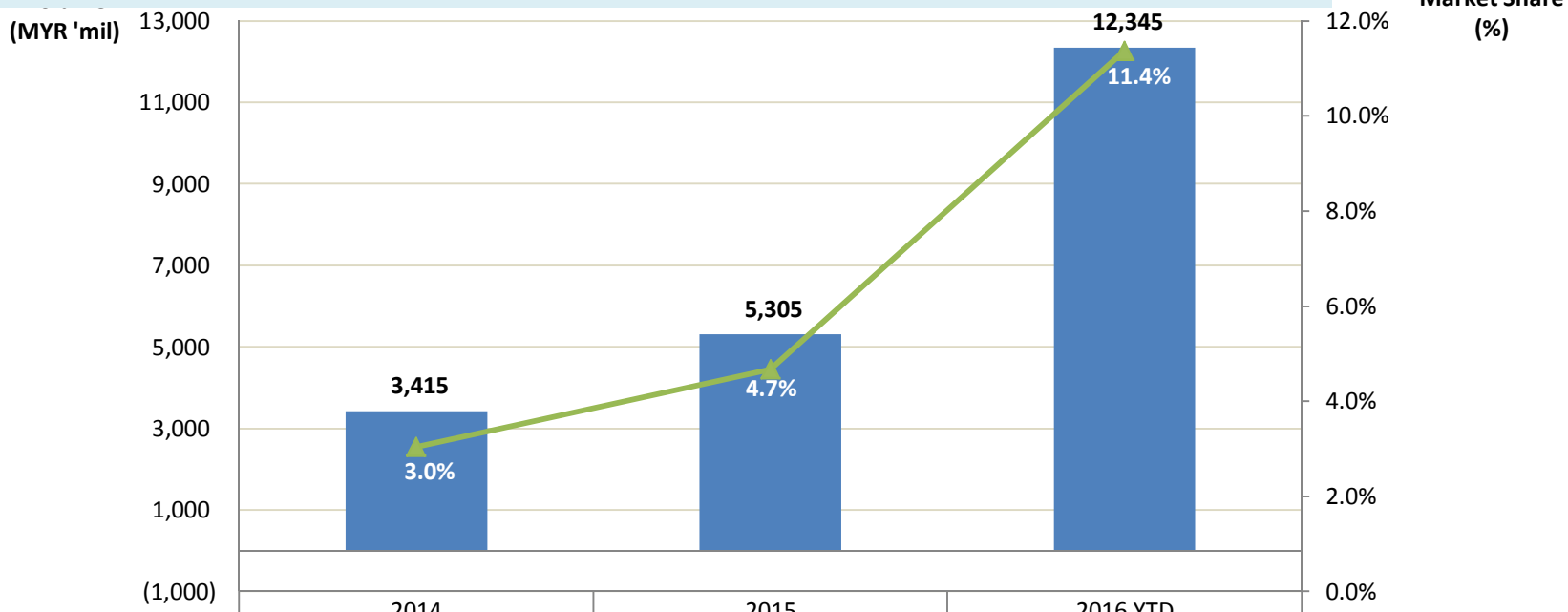
Secondary Trading Volume & Market Share in Corporate Bond Market

Highest traded Corporate Bonds and Sukuk in Malaysia as at August 2016



	2014	2015	2016 YTD
Cagamas (RM 'mil)	3,415	5,305	12,345
Total PDS (RM 'mil)	112,206	113,717	108,597
Market Share (%)	3.0%	4.7%	11.4%

- YTD 2016, Cagamas bonds is the highest traded corporate bonds in the local bond market and second only to Government securities.
- Cagamas market share in Malaysia Corporate bond and sukuk market has increased significantly over the years also evidenced by increased acceptance of foreign holders towards Cagamas.

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Foreign Holdings of Cagamas MYR Bonds

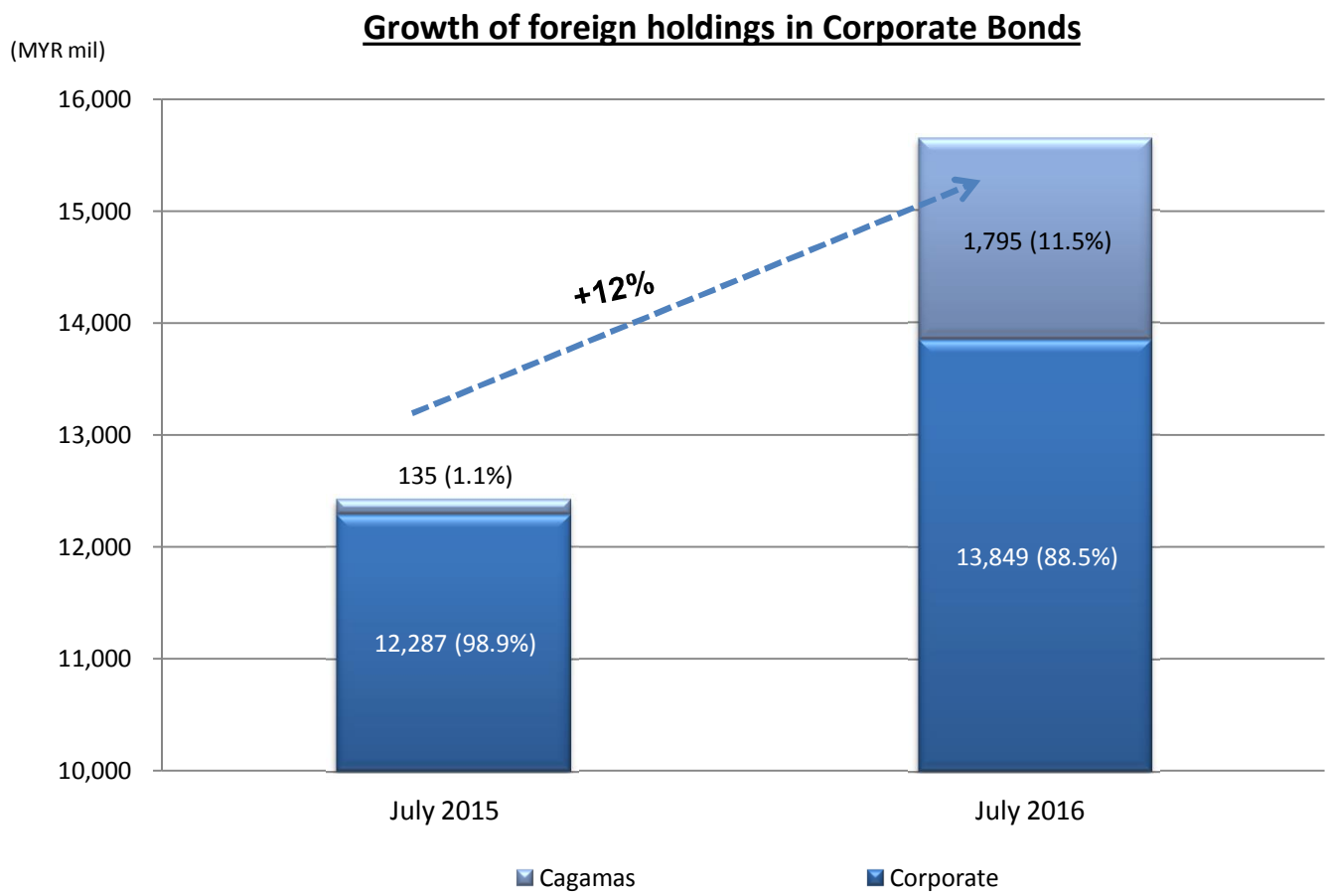

Table above indicates an increase in foreign holdings of Cagamas MYR papers against total corporate bond and sukuk in Malaysia from 1.1% in July 2015 to 11.5% in July 2016 indicating clear geographic expansion in terms of foreign investor reach

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Bond Market Liberalization in ASEAN Countries

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Market Prerequisites for Cross Border Issuance

Liquid capital market	ÅFor effective and efficient price discovery
Deep cross currency swap (CCS) market	ÅLiquid, competitive pricing and easily accessible
Favourable interest rates environment	ÅLower cost of fund
Conducive macroeconomic fundamentals	ÅInflation risk low enough to make longer-term borrowing feasible
Favourable Rating	ÅAdvantageous international rating ÅMutual recognition of rating ï savings on rating expenses
Diversified Investor Base	ÅOffer various risk appetite and tenure preferences ÅPrincipally by FIs, domestic pension funds and insurance companies
Short turnaround time to market	ÅReduce risk of exposure to price volatility
Transparent and facilitative governing framework	ÅStandardized legal framework ÅMinimal disclosure requirement ÅConcessionary fee structure e.g. for repeat issuers } Low issuance cost ÅMutual recognition of Information Memorandum (IM)/Offering Circular (OC)
Centralized clearing and settlement system	ÅReduces cost and promote efficient capital flow ÅIncreases liquidity
Liberal foreign exchange administration rules	ÅFor efficient and effective sourcing of foreign capital
Application of Hedge Accounting	ÅTo smoothen profit in the income statement

Challenges for Cross Border Issuance

Regulatory differences / Cost

ÅDiffering regulatory framework abroad make it costly to issue in another currency.
ÅInvolves substantial fixed transaction costs - legal fees, taxation
ÅOnly larger issues in foreign currency are economical.

Differences in market features

ÅDifferences across markets affect the choice of currency of corporate bond issuers.
ÅThe length of sovereign benchmark yield curves differs widely across currency areas. (e.g. 30 years in Malaysia)
ÅIlliquidity in longer tenure for CCS pricing

Recognition of ratings and standardized pricing

ÅAttainment of more than one rating/program is costly.
ÅStandardization of bond pricing convention could contribute to a more accurate credit risk assessment
ÅE.g. Spread over corresponding Government Securities

Challenges for ASEAN Market

ÅThe financial linkages between ASEAN fixed income markets are still in its infancy stage and intra-regional investments by ASEAN investors are still small, especially in the PDS space.
ÅThe underdeveloped repo markets and hold-to-maturity behaviours of Asian investors reduce secondary liquidity in the market.

ASEAN Capital Market Forum Initiatives on Fixed Income

ASEAN Disclosure Standards

- Facilitate multi-jurisdiction offerings of equity and plain debt securities to retail investors within ASEAN by allowing use of common prospectus
- Provide greater ease of access and reduces cost of fundraising for issuers
- Implemented by Malaysia, Singapore and Thailand in April 2013

Streamlined Review Framework for Common Prospectuses

- Coordinates the review of a single set of prospectus for offering/listing applications
- Approvals will be granted by the authorities at the same time, within 3 - 4 months
- MoU was signed in March 2015 between regulators from Malaysia, Singapore and Thailand, and implemented in September 2015 with a launch of a Handbook

Bond Market Liberalisation in ASEAN countries

Initiatives	Details
Memorandum of Understanding (MoU) between Bank Negara Malaysia (BNM) and Bank of Thailand (BOT)	▪ Signed on 27 August 2015, the MoU is for establishment of a framework for cooperation to promote the settlement of bilateral trade and direct investment in local currencies. ▪ Signifies the central banksôefforts to promote the use of Malaysian Ringgit and Thai Baht by the private sector to settle cross-border trades and direct investment and reduce the risks of exposure to the volatility of global settlement currencies.
Malaysian Electronic Clearing Corporation Sdn Bhdôs (MyClear) US Dollar (USD) and Renminbi (RMB) settlement Services via the electronic transfer of funds and securities system (RENTAS)	▪ Real-time gross settlement of wholesale fund transfers and securities trades denominated in MYR, USD and RMB. ▪ RENTAS multi-currency enables payment instructions between the participants of the system to be processed and settled individually and continuously throughout the working day.
MoU on Streamlined Review Framework for Common Prospectuses	▪ Developed with the objective to coordinate the review of a single prospectus for offering or listing applications of equity and plain debt securities. ▪ The MoU was signed by Malaysia, Singapore and Thailand in March 2015, effectively synchronizing the review process whereby approvals will be granted by the relevant authorities at the same time, within the indicative timeframe of 3-4 months from the submission date.
Increase Acceptance of ASEAN Sukuk in Global Indices	▪ As Islamic structured bonds gain more traction within global standards represented by the inclusion of ñsukukò into global indices. This represents higher acceptance amongst international investors looking to diversify portfolios and yet maintaining risk ratios.
Credit Guarantee and Investment Facility (CGIF)	▪ Established in November 2010, CGIF provides guarantees on longer-term local currency denominated bonds issued by companies in the region. ▪ Help to reduce the currency and maturity mismatches which caused the 1997/98 Asian financial crisis and make the regional financial system more resilient to volatile global cash flows and external shocks.

Thank You

For further information, please refer to www.cagamas.com.my

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