

CREDIT ANALYSIS



MALAYSIAN RATING CORPORATION BERHAD
(364803-V)

CREDIT GUARANTEE AND INVESTMENT FACILITY

Rating Review – 2017

Date January 2017	Rating Action Affirmed	Current Rating AAA / MARC-1	Outlook Stable
Rating History January 2016 January 2015 February 2014	Rating Action Affirmed Affirmed Affirmed	Rating AAA / MARC-1 AAA / MARC-1 AAA / MARC-1	Outlook Stable Stable Stable
Rating Methodology	Financial Guarantee Insurer Rating Approach		
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Counterparty Credit Rating
Multilateral Facility

CREDIT ANALYSIS



COUNTERPARTY CREDIT RATING/MULTILATERAL FACILITY
Rating Review - 2017

CREDIT GUARANTEE AND INVESTMENT FACILITY

Major Rating Factors

Strengths

- Conservative leverage and liquidity management;
- Strong credit underwriting practices; and
- Strong support from main shareholders.

Challenges/Risks

- Guarantees are to private sector companies.

Rationale MARC has affirmed its long-term and short-term counterparty credit ratings of **AAA/MARC-1** on Credit Guarantee and Investment Facility (CGIF) with a **stable** outlook. The ratings are based on Malaysia's national rating scale.

The ratings affirmation is driven by CGIF's strong leverage and liquidity position, supported by sound policy guidelines and a strong governance structure put in place by its shareholders who are members of ASEAN along with China, Japan, South Korea (ASEAN+3) and the Asian Development Bank (ADB).

CGIF was established in 2010 as a key component of the Asian Bond Market Initiative (ABMI) with a mandate to develop regional bond markets by providing guarantees on local currency-denominated bonds issued by corporations domiciled in the region. As at end-November 2016, CGIF guaranteed 11 issuers from seven countries in the region with the total guarantee amount standing at US\$896.0 million (end-2015: US\$583.8 million). Of these, five issuers were secured during the 11-month period in 2016 as opposed to only one issuer in 2015, indicating a stronger pace of growth for CGIF's guarantee portfolio but well within its prudential guidelines.

MARC notes that CGIF continues to maintain a conservative approach in managing its capital; CGIF's net leverage ratio as measured by guarantee amount (after taking into account reinsurance cover) to total equity after deducting loss reserves and illiquid investments stood at 1.06:1 as at end-November 2016 (2015: 0.81:1), remaining below its conservative limit of 2.50:1. CGIF has also entered into a reinsurance treaty with a consortium led by Munich Re to cede 25% of its existing exposures and new guarantees written from October 2016 to December 2017. Additionally, CGIF will seek to double its paid-in capital of US\$700.0 million, subject to approval by its contributors at the annual meeting to be held in May 2017. MARC views these measures will potentially strengthen CGIF's position as a multilateral regional bond guarantor.

MARC also notes that while CGIF's guarantee portfolio continues to exhibit geography and client concentration risks, these exposures are well within its policy parameters. Its top five largest guaranteed issuances collectively accounted for about 68.4% of total equity as at end-November 2016. Its exposure in Indonesia and Vietnam accounted for 28.3% (or US\$216.6 million) and 25.0% (or US\$191.7 million) of the total net guarantee amount as at end-November 2016. In terms of currency, Singapore dollar-denominated issuances made up a sizeable 49.9% (or US\$382.6 million).

CGIF has to manage its currency risk given that its guarantee exposures are in local currencies and its functional currency are in US dollars. For guarantee fee receivables in local currency, CGIF manages currency risk with foreign exchange forwards. For cross-border issuers, CGIF requires them to hedge their currency exposures in respect of the guaranteed debt throughout the programme tenures. CGIF also monitors the overall value of its guarantee portfolio on a regular basis to adjust its US foreign exchange reserves.

For 1H2016, CGIF's guarantee income rose by 64.1% year-on-year (y-o-y) to US\$3.7 million, attributed to the increase in new deals compared to the previous corresponding period. Investment income, which remains CGIF's main revenue contributor, increased by 11.1% y-o-y to US\$4.9 million on an improved average investment yield of 1.34% on an annualised basis (1H2015: 1.28%). Nonetheless, higher operating expenses moderated CGIF's net profit growth to 7.8% y-o-y at US\$4.5 million in 1H2016.

CGIF's healthy liquidity profile is reflected by its liquid assets which accounted for 94.8% of total assets as at end-June 2016 (2015: 96.0%). This is underpinned by a conservative investment approach with substantial allocation of funds in government and government-related entity debt obligations rated at AA- and above on the international rating scale. MARC notes that CGIF has continued to increase its investments in longer-term bonds to better align with the average maturity of its guarantee portfolio. While it plans to gradually increase its portfolio duration to 3.0 years from 2.1 years as at end-June 2016 (2015: 1.8 years), the duration will remain within its limit of 5.0 years. MARC notes that in the event of claims, liquidity risk is minimised by CGIF's ability to accelerate the principal claim payments prior to the maturity of the debt issuance upon default or to maintain the payment schedule of the guaranteed obligations.

The stable rating outlook reflects CGIF's low-risk business plan and prudent underwriting strategy. MARC believes that CGIF will continue to maintain its capital resources, leverage and future earnings and cash flow at levels commensurate with the current rating band.

Exhibit 1: Financial highlights

FYE 31 December	1H2016[^]	2015	2014	2013	2012
Operating revenue (US\$'000)	8,186	14,751	10,132	8,132	8,009
Net profit (US\$'000)	4,516	7,781	3,548	2,718	4,109
Return on assets (%)	1.18*	1.04	0.49	0.38	0.59
Return on equity (%)	1.24*	1.08	0.50	0.38	0.59
Cost-to-income ratio (%)	45.9	44.5	64.6	66.4	48.7
Average investment yields (%)	1.34*	1.30	1.23	1.08	1.13
Total assets (US\$'000)	776,649	751,569	740,486	717,973	714,696
Liquid assets/Total assets (%)	94.8	96.0	96.5	99.2	99.5
Shareholders' funds (US\$'000)	736,134	722,557	716,499	715,232	713,861
Outstanding guarantee amount (US\$'000)	779,583	583,787	475,569	111,358	-
Leverage ratio [#]	1.08:1	0.81:1	0.67:1	0.16:1	-

[^] Unaudited

*Annualised

[#] Measured by the aggregate outstanding mark-to-market guarantees to total paid-in capital plus retained earnings after deducting loss reserves and illiquid investments

Source: CGIF and MARC

BACKGROUND

Credit Guarantee and Investment Facility (CGIF) was established in November 2010 by ten members of the Association of Southeast Asian Nations together with China, Japan, South Korea (ASEAN+3) and the Asian Development Bank (ADB), a supranational bank acting as the trustee. The largest shareholders of CGIF are China and Japan Bank for International Cooperation (JBIC) with a subscribed capital of 28.6% each, followed by ADB with 18.6% and Korea with 14.3%.

CGIF was established as a key component of the Asian Bond Markets Initiative (ABMI), an initiative undertaken by ASEAN+3 to develop the region's local currency bond markets. To this end, CGIF guarantees local currency-denominated bonds issued by corporations domiciled in the region. It will also guarantee non-local currency-denominated bonds provided the issuer is naturally or financially hedged in the currency. Its activities are undertaken on a commercial basis only within the ASEAN+3 countries. As at date, CGIF has exposure to 11 issuers from seven countries in the region. The guarantees issued by CGIF are irrevocable and unconditional commitments to pay bondholders upon non-payment by issuers throughout the tenure of the bonds. (Please refer to Appendix 1 for further details.)

BUSINESS REVIEW

During the 11-month period ended November 30, 2016 (11M2016), CGIF provided guarantees to five new issuers with issuances totalling US\$396.8 million, a sharp increase from one issuer with issuances of US\$138.7 million in 2015. The guarantee portfolio is shown in Exhibit 2. During the period, CGIF extended its first guarantee for a Malaysian (KNM Group Berhad), a Filipino (AP Renewables, Inc) and a Singaporean corporate (Fullerton Healthcare Corporation Ltd). With the full redemption of Noble Group Limited in April 2016, CGIF has 11 remaining issuers with a total guarantee amount of US\$896.0 million as at end-November 2016 (end-2015: seven; US\$583.8 million). MARC understands that CGIF has approved two guarantee transactions amounting to US\$170.0 million, pending issuances.

Exhibit 2: Guarantee portfolio as at end-November 2016

Issuer	Issuers' base country	Issue date	Currency of issuance	Gross amount (US\$ mil equivalent)	Tenure (years)	Maturity
PT BCA Finance	Indonesia	Dec 2013 & Mar 2014	Indonesian rupiah	31.0	3	Dec 2016 (US\$22 mil) Mar 2017 (US\$9 mil)
Kolao Holdings	Laos	Aug 2014	Singapore dollar	42.1	3	Aug 2017
PT Professional Telekomunikasi Indonesia	Indonesia	Nov 2014	Singapore dollar	126.4	10	Nov 2024
Masan Consumer Holdings	Vietnam	Dec 2014	Vietnamese dong	92.4	10	Dec 2024
PT Astra Sedaya Finance	Indonesia	Dec 2014	Singapore dollar	70.2	3	Dec 2017
IVL Singapore Pte. Ltd	Thailand	Oct 2015	Singapore dollar	136.9	10	Oct 2025
Vingroup Joint Stock Company	Vietnam	Feb 2016	Vietnamese dong	132.1	5 & 10	Feb 2021 (US\$87 mil) Feb 2026 (US\$47 mil)
AP Renewables, Inc.	Philippines	Mar 2016	Philippine peso	94.2	10	Mar 2026
PT Mitra Pinasthika Mustika Finance	Indonesia	Mar 2016 & Apr 2016	Indonesian rupiah	22.2	3	Mar 2019 (US\$12 mil) Apr 2019 (US\$11 mil)
Fullerton Healthcare Corporation Ltd	Singapore	Jul 2016	Singapore dollar	70.2	5 & 7	Jul 2021 (US\$37 mil) Jul 2023 (US\$37 mil)
KNM Group Berhad	Malaysia	Nov 2016	Thai baht	78.2	5	Nov 2021
Total				896.0		
Noble Group Limited	China	Apr 2013	Thai baht	80.0	3	Matured in Apr 2016

Source: CGIF

CGIF has entered into a first quota share reinsurance treaty with a consortium led by Munich Re effective from October 1, 2016. Under the reinsurance treaty, 25% of CGIF's existing exposures and new guarantees written from October 2016 to December 2017 will be automatically ceded to the consortium if they meet the reinsurance criteria. For long tenor bonds, CGIF may need to seek approvals from Munich Re to allow the guarantee to be included in the treaty. With the reinsurance arrangement, CGIF's guarantee exposures (taking into account the ceded exposures and the credit risk of reinsurer) stood at US\$766.3 million as at

end-November 2016, providing additional headroom for growth given its current maximum guarantee capacity (MGC)¹ of US\$1.82 billion.

Guaranteed portfolio exhibits geography and currency concentration risks

Indonesia and Vietnam accounted for 28.3% (or US\$216.6 million) and 25.0% (or US\$191.7 million) of CGIF's total net guarantee amount as at end-November 2016 respectively. In terms of currency, Singapore dollar-denominated issuances made up a sizeable 49.9% (or US\$382.6 million) of its guarantee portfolio. The large exposures partly reflect CGIF's relatively small portfolio size and are expected to decline as the portfolio increases. MARC also notes that the exposures are well within CGIF policy parameters. Its exposure limits for country are at 20% of the MGC, currency are at 40% of the MGC, sector are at 40% of the MGC and single borrower/group are at 20% of CGIF's paid-in capital, among others.

CGIF's top five largest net guaranteed issuances collectively accounted for 68.4% of total equity as at end-November 2016. Of these, the largest guaranteed issue is SGD195 million (net exposure: US\$118.7 million or 16.1% of total equity) which was issued by IVL Singapore Pte Ltd (IVL Singapore), a subsidiary of Thailand-based Indorama Ventures Public Company Limited. Indorama Ventures Public Company Limited is primarily involved in the manufacturing and distribution of petrochemical products. The second and third largest guaranteed issues are SGD180 million (net exposure: US\$111.6 million) by PT Professional Telekomunikasi Indonesia (Protelindo); and VND3.0 trillion (net exposure: US\$111.5 million) by Vingroup, a real estate company in Vietnam. MARC notes that CGIF's guarantees on IVL Singapore and Protelindo are provided on a clean basis.

Currency risk arising from local currency bond guarantees

As CGIF's guarantee portfolio comprises credit guarantees on bonds denominated in several ASEAN currencies, it is exposed to currency risk given that the US dollar is its functional currency. CGIF manages the foreign currency risk on guarantee fee receivables by entering into foreign exchange forwards with counterparties with a minimum short-term issuer rating of A-1 on the international rating scale. For cross-border issuers, CGIF's operational policies require their foreign currency bonds to be naturally or financially hedged throughout the programme tenures. This would ensure that the debt service capacity of issuers earning in local currency are not adversely affected by currency volatility.

MARC understands that CGIF monitors the value of its guarantee portfolio on a regular basis to ensure the leverage ratio is within its maximum limit of 2.50:1. Foreign exchange reserves are determined quarterly or when each guarantee proposal is being considered for approval. If the US dollar depreciates, additional reserves are made to ensure that the leverage ratio is maintained.

Creditworthy reinsurers mitigate credit risk

MARC views that reinsurance credit risk is mitigated by CGIF's policy on reinsurers to have a minimum rating of A- on the international rating scale and a higher rating than the underlying issuer. CGIF has ceded its risks to a reinsurance consortium with the leading reinsurer being Munich Re. The international ratings of CGIF's current reinsurance partners range from AA- to A.

¹ *Maximum guarantee capacity = (total paid-up capital + retained profit - credit loss reserves - foreign exchange reserves - all illiquid investments) * maximum leverage ratio of 2.5*

FINANCIAL PERFORMANCE

Operating performance

Exhibit 3: Performance indicators

FYE 31 December	1H2016[^]	1H2015[^]	2015	2014	2013	2012
Operating revenue (US\$'000)	8,186	7,312	14,751	10,132	8,132	8,009
Guarantee income (US\$'000)	3,670	2,236	4,782	1,345	421	-
Investment income (US\$'000)	4,851	4,366	9,150	8,287	7,646	8,008
Net realised gains from disposal of investments (US\$'000)	-	219	219	487	-	-
Net profit (US\$'000)	4,516	4,189	7,781	3,548	2,718	4,109
Average investment yields (%)	1.34*	1.28*	1.30	1.23	1.07	1.15
Return on assets (%)	1.18*	1.13*	1.04	0.49	0.38	0.59
Return on equity (%)	1.24*	1.17*	1.08	0.50	0.38	0.59
Cost-to-income ratio (%)	45.9	40.3	44.5	64.6	66.4	48.7

[^] Unaudited

* Annualised

Note: Average investment yields exclude gains or losses from the change in fair value and are calculated based on the portfolio held at the beginning and end of each month during the period

Source: CGIF and MARC

CGIF's guarantee income rose by 64.1% year-on-year (y-o-y) to US\$3.7 million in 1H2016, attributed to the higher increase in new deals compared to the previous corresponding period. The increase in guarantee income has increased its proportion of operating revenue to 44.8% in 1H2016 (1H2015: 30.6%). For 1H2016, investment income increased by 11.1% y-o-y to about US\$4.9 million, supported by an improved average investment yield of 1.34% on an annualised basis. This notwithstanding, the increase in operating expenses to US\$3.8 million (1H2015: US\$3.0 million) moderated CGIF's net profit, which grew by 7.8% y-o-y to US\$4.5 million.

Investment management

Exhibit 4: Allocation of funds

Type	Amount (US\$ million)			Proportion (%)		
	1H2016	2015	2014	1H2016	2015	2014
Government and government-guaranteed obligations	611.3	646.4	666.6	83.2	90.0	93.5
Corporate obligations	95.8	65.1	10.7	13.0	9.1	1.5
Time deposits	27.6	6.8	35.6	3.8	0.9	5.0
Total	734.7	718.3	712.9	100.0	100.0	100.0

Source: CGIF

Note: All of CGIF's investments are denominated in US dollars

CGIF maintains a conservative approach to investment by prioritising liquidity and capital security as reflected by a substantial 84.2% allocation of its funds in government and government-related entity debt obligations rated at AA- and above (on an international rating scale) as at end-September 2016. It has continued to increase its holdings in US Treasuries which constituted its largest investment (22.2%), followed by government-related entity debt obligations of South Korea (18.6%) and Germany (17.4%).

MARC observes that CGIF has increased the allocation of its investment securities with longer maturities to better align with the average maturities of its guaranteed bonds. The average effective duration of CGIF's investment portfolio increased to 2.14 years as at end-June 2016 (2015: 1.77 years), resulting in an increase in the annualised investment rate of return to 1.33% in 1H2016 (1H2015: 1.28%). MARC understands that CGIF plans to gradually increase its portfolio duration to 3.0 years. Nonetheless, the rating agency draws comfort from CGIF's investment guidelines that limit the average duration of its outstanding investments to a maximum of 5.0 years. This would ensure that the investment portfolio is not overly sensitive to interest rate fluctuations and that its portfolio management is adequately responsive to general market trends.

Capital adequacy

Exhibit 5: Capital adequacy

FYE 31 December	1H2016 [^]	2015	2014	2013	2012
Total assets (US\$'000)	776,649	751,569	740,486	717,973	714,696
Total equity (US\$'000)	736,134	722,557	716,499	715,232	713,861
Leverage ratio*	1.08:1	0.81:1	0.67:1	0.16:1	-
Basel II capital adequacy ratio (%)	22.1	26.7	28.9	n.a.	n.a.

Source: CGIF, MARC

* Calculated based on mark-to-market value for issued guarantees

MARC considers CGIF's capital position to remain sound. Its leverage ratio² stood at 1.24:1 as at end-November 2016 despite an increase from 0.81:1 as at end-2015. Its net leverage ratio (taking into consideration the ceded guarantee exposures and the credit risk of the reinsurer) stood at 1.06:1 and would rise to 1.25:1 upon issuances of CGIF's approved guarantee transactions amounting to US\$170.0 million. Nonetheless, the ratio would remain within CGIF's internal limit of 2.50:1. CGIF plans to double its authorised and paid-in capital of US\$700.0 million, subject to approval by its contributors at the annual meeting to be held in May 2017. As such, there is significant headroom for CGIF to increase the pace of guaranteeing local currency-denominated bonds.

CGIF's financial policies also prohibit borrowings to finance its operations with the exception of short-term borrowings for cash management purposes. The conservative leverage and financial policies mitigate risks arising from the lack of callable capital.

Liquidity

Exhibit 6: Proportion of liquid assets to total assets

FYE 31 December	1H2016 [^]	2015	2014	2013	2012
Liquid assets (US\$'000)	736,097	721,455	714,761	712,427	710,800
Total assets (US\$'000)	776,649	751,569	740,486	717,973	714,696
Liquid assets/Total assets (%)	94.8	96.0	96.5	99.2	99.5

Source: CGIF

CGIF's liquidity profile remains sound, underpinned by its conservative investment approach. Liquid assets accounted for 94.8% of its total assets as at end-June 2016. Further mitigating liquidity risk arising from sudden cash requirements is the global master repurchase agreement (GMRA) with a financial institution. The GMRA provides CGIF with access to liquidity and reduces the risk of undertaking forced sales of securities.

MARC also notes that CGIF retains the right to maintain the payment schedule of the guaranteed obligations or accelerate the principal claim payments prior to the maturity of the debt issuance upon default of the issuer. This option would minimise liquidity risk in the event of claims.

MANAGEMENT

There have been no significant changes in key management positions since the last review. The management team has strong expertise and wide experience in key areas of the financial services industry to meet CGIF's objectives.

STRENGTH OF MEMBER SUPPORT

Despite the lack of callable capital, MARC opines a strong likelihood of support will be extended to CGIF by its shareholders, which include strong creditworthy member countries (China, Japan, South Korea, Malaysia and Singapore) and the supranational ADB. This view is based on CGIF's status as a trust fund of a multilateral development institution and key component of ABMI.

² The leverage ratio is measured by the aggregate outstanding guarantees to total paid-in capital plus retained earnings after deducting loss reserves and illiquid investments.

RISK MANAGEMENT AND CONTROLS

CGIF's board of directors plays a direct role in risk issues through the internal control and risk management committee (ICRMC). The ICRMC is responsible for operating sound and effective systems of internal control and risk management to safeguard contributors' investments and CGIF's assets. The day-to-day risk management functions are vested in the chief risk officer (CRO), who heads CGIF's risk management department (RMD) and reports to the ICRMC and the board. CGIF's risk management policies and procedures draw on global best practices for multilateral institutions, with clear separation of duties between risk-taking units and risk managers and a well-designed risk appetite framework.

Prudent underwriting policy and controls

CGIF's internal credit rating system assesses the likelihood of default of a borrowing entity. Its credit assessment process considers the borrowing entity's ownership and management, business and operating environment, historical and projected financial performance, and cash flows, among others. Each borrowing entity assessed is assigned a rating on a 19-point scale from 1 (lowest risk) to 10 (highest risk), with 7 being the maximum acceptable risk rating. An internal rating of 7 is expected to correspond to a minimum rating of BB- on the international rating scale. This would map to a minimum investment grade rating on the applicable national rating scale. The risk rating system appears to be sufficiently granular and CGIF's internal ratings may also be augmented by external ratings from international and national credit rating agencies on the borrowing entities. MARC understands that CGIF has procured additional credit rating scorecards that are more appropriate for specific sectors from S&P Capital IQ in 2016 to improve its assessments on the issuers.

The credit risk assessment of a borrowing entity is conducted by the Deal Operations Department (DOD). The RMD validates the credit assessment, assigns an internal credit rating to the borrowing entity and issues a credit risk note to the guarantee and investment committee (GIC) and the Board. The DOD submits a guarantee concept proposal for the GIC's approval before formal due diligence on a borrowing entity is conducted. Subsequent to the due diligence, the DOD submits a guarantee underwriting proposal for the GIC's review. The GIC's approval is required prior to submission of the proposal to the board. MARC notes that the board does not delegate discretion to approve credit exposures.

Sound credit guarantee pricing methodology

CGIF's guarantee fees are market-based and reflect the risk of the underlying credit being guaranteed. CGIF's internal benchmark fee rate for each guarantee transaction takes into account the expected loss [probability of default (PD) x loss given default (LGD)], the required return on capital and the administrative costs relating to the transaction. Additionally, CGIF will consider the comparable market rates available to the issuer to arrive at a final guarantee fee rate.

Accurate PD and LGD estimates are important for appropriate pricing of credit guarantees, provisioning for potential credit losses and calculating CGIF's risk capital. The lack of uniformity in PD data, sample size limitations and general lack of credit loss and recovery data in much of CGIF's mandated region would pose challenges to accurately determine these parameters. Refinement to CGIF's estimation of PD and LGD parameters will depend on improved uniformity in PD data and the availability of recovery data over time. CGIF enhances the estimates of LGD by accounting for stressed values of borrowers' assets.

Strong credit portfolio management processes

CGIF's operational policies provide for regular reporting on the nature and extent of its credit exposures to facilitate active management of its guarantee portfolio and the board's oversight duties. All credit risk exposures are reviewed at least once a year, or more frequently if required, by the DOD to facilitate early identification of risks affecting issuer debt repayment capacity. Exposures that are deemed to contain heightened levels of default risk – these are either classified as watch-listed, especially mentioned or substandard – will be subject to close monitoring. The DOD prepares classification reports each time a guarantee is adversely classified or re-classified to a worse level, subsequent to which status reporting on

the credit exposures to the GIC and to the board will have to be undertaken. Based on CGIF's risk management framework, credit loss reserves will be established based on default probabilities associated with CGIF's internal risk ratings (IRR).

FUNDING AND LIQUIDITY

CGIF's operations are entirely funded by its paid-in capital which represents 100% of subscribed capital. CGIF may increase its authorised capital by vote of at least two-thirds of the number of its contributors who hold collectively two thirds of the total outstanding shares. Its financial policies prohibit borrowings from any source to finance its operations although it may use short-term borrowings for cash management purposes, for instance to meet a call on a guarantee in place of liquidating an investment position when it is more advantageous to do so.

Through the ICRMC, the board has oversight of CGIF's liquidity and liquidity risk exposure and sets controls on CGIF's exposure to liquidity risk. The CFO, in consultation with the RMD, is responsible for formulating CGIF's liquidity contingency funding plan. CGIF's risk management framework requires liquidity risk to be measured via projected liquidity gaps (difference between cash inflows and outflows) and cumulative liquidity gaps in the next three months from the gap calculation cut-off date to be positive. Negative liquidity gaps are to be acted on and an action plan is to be drawn up by the CFO, the implementation of which will be monitored by the GIC.

In addition, if a liquidity contingency event (LCE) occurs, the CFO will draw up a liquidity contingency action plan to fund possible liquidity shortfalls. LCEs include guarantee claims, delinquency of coupon or principle payments and downgrading to an IRR of 8.5 or worse. MARC views CGIF's liquidity risk management framework to be satisfactory. The facility's conservative investment practices that emphasise highly rated fixed-income assets underpin its sound liquidity profile.

MANAGEMENT OF CAPITAL RESOURCES

CGIF's capital resources are currently placed with its trustee and managed by ADB's Treasury Department according to board-approved specific investment strategies and performance benchmarks. The agreed investment strategies are consistent with ADB's risk management policies and investment guidelines, and aligned to the specific requirements of CGIF's guarantee operations and its financial policies. The primary investment objective is to protect the principal amount of the investments while generating a reasonable return. The maximum allowable average duration of CGIF's investments is 5.0 years.

All investments should be liquid, that is, there should be minimal market price changes when sold. Allowable investments as per CGIF's operational policy are US dollar-denominated securities representing sovereign and sovereign-backed securities, securities issued by multilateral organisations, corporate securities, obligations of banks and other financial institutions, money market instruments and derivative instruments for covering risk hedges.

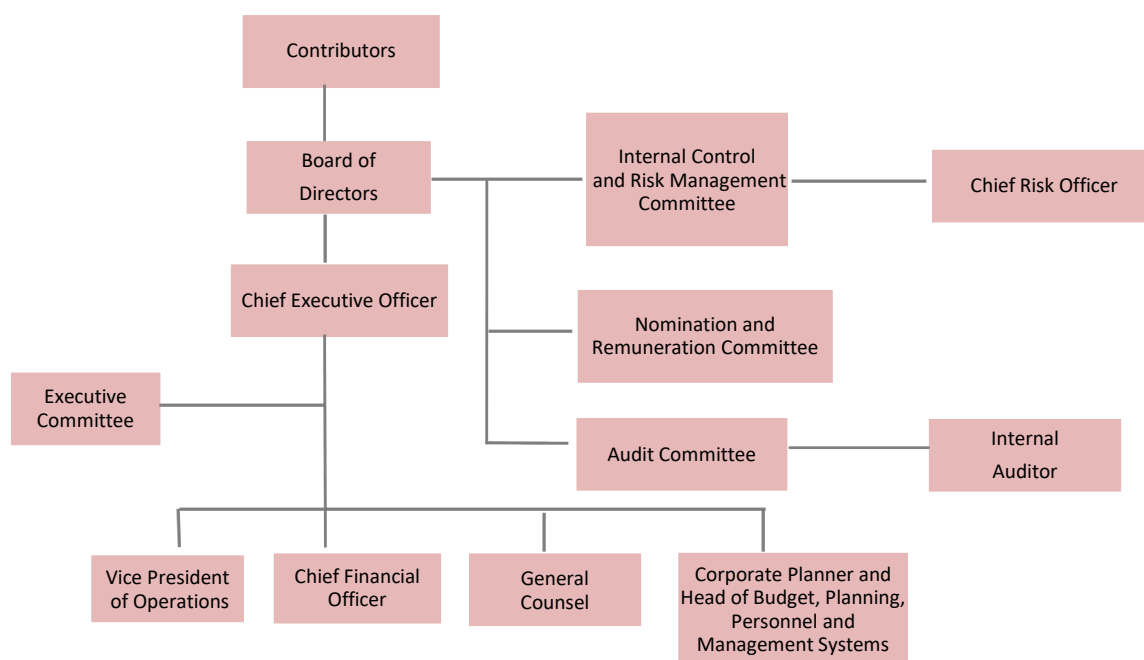
CGIF's principal interest rate risk management objective is to generate stable overall interest income from the investment of its equity resources that is not overly sensitive to significant interest rate fluctuations but is adequately responsive to general market trends.

ORGANISATION AND GOVERNANCE

The governance structure of CGIF comprises the Meeting of Contributors, an eight-member board of directors, three board committees and two management committees. The Meeting of Contributors is the highest decision-making body of CGIF which determines strategic objectives and provides guidance on the overall operations and management. It reviews and approves the recommendations of the board on the extent of operations that CGIF may undertake for the development of the bonds market, the use of leverage and the maximum leverage ratio and any revision to country limits.

The board of directors is the second highest decision-making body of CGIF with the role of representing and protecting the interests of the Contributors as well as providing oversight over the strategy, operations and management of CGIF. The board has established three committees: the audit committee, the internal control and risk management committee, and the nomination and remuneration committee, and determines the mandate and composition of management committees. CGIF currently has two management committees: the executive committee chaired by the CEO; and the guarantee and investment committee chaired by the chief risk officer. As the trustee of CGIF, ADB holds in trust and currently manages all CGIF's funds.

Exhibit 7: Governance structure



Source: CGIF, MARC

SHAREHOLDING AND GOVERNANCE INFORMATION (as at September 26, 2016)

BOARD OF DIRECTORS

Jian Li (Chairman, China)
 Li Hongxia (China)
 Fumihiko Yamada (Japan)
 Toshiaki Kitajima (Japan)
 Sun-joon Jun (Korea)
 Siti Zauyah Mohd Desa (ASEAN)
 Stefan Hruschka (ADB)
 Kiyoshi Nishimura (Chief Executive Officer)

CONTRIBUTORS

People's Republic of China	28.57%
Japan Bank for International Cooperation	28.57%
Republic of Korea	14.29%
Brunei Darussalam	0.80%
Cambodia	0.01%
Indonesia	1.80%
Lao People's Democratic Republic	0.01%
Malaysia	1.80%
Republic of the Union of Myanmar	0.01%
Philippines	1.80%
Singapore	1.80%
Thailand	1.80%
Vietnam	0.16%
Asian Development Bank	18.6%

MANAGEMENT

Kiyoshi Nishimura	Chief Executive Officer
Aarne Dimanlig	Chief Risk Officer
Boo Hock Khoo	Vice President, Operations
TongSop Song	Chief Financial Officer
Gene Soon Park	General Counsel and Board Secretary
Hou Hock Lim	Corporate Planner and Head of Budget, Planning, Personnel and Management Systems
Jackie Jeong-Ae Bang	Internal Auditor

AUDITOR

Deloitte Touche LLP, Singapore

REGISTERED OFFICE

CREDIT GUARANTEE AND INVESTMENT FACILITY

Asian Development Bank Building
 6 ADB Avenue
 Mandaluyong City
 1550 Metro Manila
 Philippines

CREDIT GUARANTEE AND INVESTMENT FACILITY
STATEMENT OF FINANCIAL POSITION

(USD'000)

Financial Year Ending : December 31

ASSETS:

	1H2016	2015	2014	2013	2012	Change (%)			
						2015	2014	2013	2012
Cash	1,376	3,183	1,905	3,053	1,709	67.1	(37.6)	78.6	29.0
Time deposits	27,633	6,798	35,599	8,001	88,000	(80.9)	>100	(90.9)	(66.8)
Investments	707,088	711,474	677,257	701,373	621,091	5.1	(3.4)	12.9	48.0
Derivative assets	-	69	-	-	-	n.m.	n.m.	n.m.	n.m.
Accrued Revenue from investment	2,432	3,430	4,150	3,226	2,903	(17.3)	28.6	11.1	82.6
Guarantee fee receivables	36,789	25,533	20,732	1,183	-	23.2	>100	n.m.	n.m.
Other Assets	1,331	1,082	843	1,137	993	28.4	(25.9)	14.5	>100
TOTAL ASSETS	776,649	751,569	740,486	717,973	714,696	1.5	3.1	0.5	3.9

LIABILITIES & MEMBER'S EQUITY

Guarantee Liability	39,181	27,841	22,499	1,765	-	23.7	>100	n.m.	n.m.
Unearned interest income - guarantee	112	89	11	4	-	>100	>100	n.m.	n.m.
Derivative liabilities	380	-	-	-	-	n.m.	n.m.	n.m.	n.m.
Payable to other fund	-	-	-	-	12	n.m.	n.m.	(100.0)	(57.1)
Accrued expenses	492	382	777	272	127	(50.8)	>100	>100	(56.1)
Other Liabilities	350	700	700	700	696	n.m.	n.m.	0.6	3.9
TOTAL LIABILITIES	40,515	29,012	23,987	2,741	835	20.9	>100	>100	(15.4)

MEMBERS' EQUITY

Capital stock	700,000	700,000	700,000	700,000	700,000	n.m.	n.m.	n.m.	2.8
Unrealised gain/(loss) on sale of investment	6,929	(2,131)	(408)	1,873	3,220	<(100)	<(100)	(41.8)	>100
Reserve	24,689	16,907	13,359	10,641	6,532	26.6	25.5	62.9	n.m.
Retained Earnings	4,516	7,781	3,548	2,718	4,109	>100	30.5	(33.9)	(37.1)
	736,134	722,557	716,499	715,232	713,861	0.8	0.2	0.2	4.0
TOTAL	776,649	751,569	740,486	717,973	714,696	1.5	3.1	0.5	3.9

CREDIT GUARANTEE AND INVESTMENT FACILITY
STATEMENT OF COMPREHENSIVE INCOME

(USD'000)

Financial Year Ending : December 31

	1H2016	2015	2014	2013	2012	Change (%)			
						2015	2014	2013	2012
REVENUE :									
Income on guarantees	3,670	4,782	1,345	421	-	>100	>100	n.m.	n.m.
Income on investments	4,851	9,150	8,287	7,646	8,008	10.4	8.4	(4.5)	13.5
Net realised gains from investments	-	219	487	-	-	(55.0)	n.m.	n.m.	n.m.
Others	(335)	600	13	65	1	>100	(80.0)	>100	(99.8)
	8,186	14,751	10,132	8,132	8,009	45.6	24.6	1.5	6.2
EXPENSES:									
Administrative expenses	3,245	5,566	5,511	4,405	2,937	1.0	25.1	50.0	>100
Financial expenses	26	50	56	49	37	(10.7)	14.3	32.4	>100
Depreciation expenses	137	241	276	246	234	(12.7)	12.2	5.1	>100
Other miscellaneous expenses	350	700	700	700	696	n.m.	n.m.	0.6	3.9
	3,758	6,557	6,543	5,400	3,904	0.2	21.2	38.3	>100
TOTAL OPERATING INCOME	4,428	8,194	3,589	2,732	4,105	>100	31.4	(33.4)	(34.3)
CHANGES IN FAIR VALUE OF DERIVATIVES	-	-	-	-	-	n.m.	n.m.	n.m.	100.0
TRANSLATION (LOSS)/ GAIN	88	(413)	(41)	(14)	4	<(100)	<(100)	<(100)	>100
NET INCOME	4,516	7,781	3,548	2,718	4,109	>100	30.5	(33.9)	(29.8)
OTHER COMPREHENSIVE INCOME									
Unrealised (Loss)/Gain on AFS Investments	9,060	(1,723)	(2,281)	(1,347)	4,271	24.5	(69.3)	<(100)	>100
TOTAL COMPREHENSIVE INCOME	13,576	6,058	1,267	1,371	8,380	>100	(7.6)	(83.6)	74.1

n.m. : not meaningful

RATING SYMBOLS AND DEFINITIONS COUNTERPARTY CREDIT RATINGS

LONG-TERM RATINGS

Counterparty ratings are opinions of the ability of counterparties to honour senior obligations under financial contracts such as obligations under currency swaps, interest rate swaps, third party credit guarantees or partial guarantees, liquidity facilities and similar products, given appropriate documentation and authorisation.

- AAA** A counterparty rated AAA has an exceptionally strong capacity to meet its obligations under financial contracts and has the least risk of an impairment of its creditworthiness relative to other counterparties.
- AA** A counterparty rated AA has a very strong capacity to meet its obligations under financial contracts but is rated lower than a AAA counterparty because its long-term risks are higher than AAA counterparties.
- A** A counterparty rated A has a strong capacity to meet its obligations under financial contracts, but shortcomings may be present to suggest a susceptibility to impairment in its creditworthiness sometime in the future.
- BBB** A counterparty rated BBB has adequate capacity to meet its obligations under financial contracts, but some shortcomings are present to suggest higher risk of susceptibility to impairment in its creditworthiness in the event of adverse changes in its operating environment and/or entity-specific circumstances.
- BB** A counterparty rated BB has somewhat uncertain capacity to meet its obligations under financial contracts and moderately high susceptibility to impairment in its creditworthiness in the event of adverse changes in its operating environment and/or entity-specific circumstances.
- B** A counterparty rated B has uncertain capacity to meet its obligations under financial contracts and high susceptibility to impairment in its creditworthiness in the event of adverse changes in its operating environment and/or entity-specific circumstances.
- C** A counterparty rated C has highly uncertain capacity to meet its obligations under financial contracts and is at risk of defaulting on its obligations.

Note: Long-term Ratings from AA to B may be modified by a plus (+) or minus (-) suffix to show its relative standing within the major rating categories.

SHORT-TERM RATINGS

MARC's Short-term Ratings reflect the counterparty's capacity to meet its short-term obligations not exceeding a year under financial contracts.

- MARC-1** Very strong capacity to meet its obligations under financial contracts.
- MARC-2** Strong capacity to meet its obligations under financial contracts.
- MARC-3** Adequate capacity to meet its obligations under financial contracts.
- MARC-4** Speculative capacity to meet its obligations under financial contracts.

RATING OUTLOOK

MARC's Rating Outlook assesses the potential direction of a counterparty's rating over the intermediate term (typically over a one-to two-year period). The Rating Outlook may either be:

- POSITIVE** which indicates that a rating may be raised;
- NEGATIVE** which indicates that a rating may be lowered;
- STABLE** which indicates that a rating is likely to remain unchanged; or
- DEVELOPING** which indicates that a rating may be raised, lowered or remain unchanged.

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