



MALAYSIAN RATING CORPORATION BERHAD
(Company No.: 364803-V)

CREDIT GUARANTEE AND INVESTMENT FACILITY

Rating Review – 2014

Date February 2014	Rating Action Affirmed	Current Rating AAA/MARC-1	Outlook Stable
Rating History January 2013	Rating Action Assigned	Rating AAA/MARC-1	Outlook Stable
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CREDIT ANALYSIS

COUNTERPARTY CREDIT RATING/MULTILATERAL FACILITY
Rating Review - 2014

CREDIT GUARANTEE AND INVESTMENT FACILITY

Major Rating Factors

Strengths

- Sound leverage and conservative liquidity management policies and practices;
- Sound credit underwriting practices;
- Sound governance structure; and
- Multilateral status and strong support from main shareholders for its mandate of facilitating market access for investment grade-rated entities.

Challenges

- Industry risks pertaining to negative developments in respect of credit spreads, interest rates, competition and market opportunities; and
- Developing a significant level of core earnings.

Rationale MARC has affirmed the long-term and short-term counterparty credit ratings of **AAA/MARC-1** on Credit Guarantee and Investment Facility (CGIF or Facility) with a **stable** outlook. The affirmed ratings reflect CGIF's strong capital position and claims paying resources relative to its risk exposure, its sound leverage policy and traction gained in the ASEAN local currency and regional bond markets since commencing its guarantee operations in May 2012. In addition, MARC continues to view CGIF's governance structure as a credit strength. The counterparty credit ratings on CGIF reflect MARC's assessment of the Facility's financial strength on a national rating scale.

CGIF was established as a trust fund of the Asian Development Bank (ADB) in November 2010 by 13 countries comprising ten member countries of the Association of Southeast Asian Nations (ASEAN) and the People's Republic of China (PRC), Japan and Korea (ASEAN+3) as well as ADB. CGIF has a broad business mandate to develop and strengthen local currencies and regional bond markets in the 13 member countries of ASEAN+3 by providing guarantees for corporate bond issuances of creditworthy ASEAN+3 domiciled corporations.

CGIF will complete its second full year of guarantee operations in May 2014. As of end-2013, the Facility has closed two guarantee transactions with a total guarantee value of US\$125 million and approved six guarantee transactions. Based on the risk profile of the two announced transactions and the Facility's conservative targets for portfolio growth, MARC opines that CGIF's management will remain selective in the type of risk it will guarantee. MARC draws comfort from the emphasis on quality over volume, which will ensure that the risk of CGIF having to pay significant claims on the guaranteed portfolio remains fairly low. Consistent with the Facility's objective, CGIF's first two guarantees entailed the provision of credit enhancement in local currencies within ASEAN+3 member countries. While CGIF's overall deal flow appears to exhibit moderate geographic diversity among target countries, the issuance of guarantees is subject to restrictions arising from single risk and country limits as well as eligibility criteria. Overall, these restrictions are viewed as consistent with the Facility's goal of constructing a low-risk guarantee portfolio. The overall deal flow to date indicates strong interest from companies looking to tap the Singapore dollar and Thai baht markets, driven by more attractive funding cost.

A primary constraint faced earlier by CGIF in growing its book of business was its rather restrictive country limits. As the minimum amount of credit enhancement for a transaction typically falls within the range of US\$80 million to US\$100 million, this will limit CGIF to a maximum of two transactions per country at any one time. In November 2013, CGIF's authorised leverage ratio was increased to 2.5:1 from 1:1, which effectively increased its guarantee capacity to US\$1.75 billion from US\$700 million. At the same time, MARC notes that CGIF has developed its own internal economic capital model to ensure that its capitalisation remains sufficiently strong to support potential claims. CGIF's plans to start leveraging its capital to scale-up its guarantee capacity also entailed an increase in its country limit to US\$350 million from US\$140 million. Additionally, the rating agency expects CGIF's prudent growth and operating strategies, as laid out in its ten-year business and financial projections, will also be key factors with regard to the maintenance of a sound capital position going forward.

CGIF's investment management prioritises investment liquidity and capital preservation. The Facility's investment portfolio mainly constituted debt obligations which are guaranteed by governments or issued by government-related entities with a minimum rating of AA- on the international rating scale. Investments are mostly in short-term debts with durations of less than two years. Investment returns are limited in view of CGIF's conservative investment policy. In 2012, the annualised investment rate of return after incorporating the effect of changes in fair value was 1.15% (2011: 1.06%). The annualised return was lower at 1.11% in the first half of financial year ended December 2013 (1H2013), reflecting the current low interest rate environment.

CGIF registered its first guarantee income in 1H2013 amounting to US\$108,000 arising from its first guarantee transaction. While income from guarantee operations is expected to increase gradually as CGIF builds up its guarantee portfolio, revenue is expected to continue to be driven by investment income (investment income stood at US\$3.9 million in 1H2013). Net income decreased to US\$1.5 million in 1H2013 (1H2012: US\$2.3 million) due to higher operating costs arising from CGIF's continued expansion of its staff strength. The Facility's operating costs are expected to be sufficiently covered by its present level of investment income.

The stable rating outlook reflects CGIF's low-risk business plan and prudent underwriting strategy, and expectations that its capital resources, leverage, future earnings and cash flow will remain within tolerances for the rating.

Exhibit 1: Financial highlights

FYE 31 December	1H2013	2012	2011
Operating revenue (US\$'000)	4,105	8,009	7,538
Net profit (US\$'000)	1,463	4,109	5,851
Return on average earning assets (%)	1.11*	1.15	1.06
Return on asset (%)	0.41*	0.59	0.61
Return on equity (%)	0.41*	0.59	0.89
Cost to income ratio (%)	64.3	48.7	17.1
Total assets (US\$'000)	714,673	714,696	687,567
Liquid assets/Total assets (%)	0.99	0.99	1.00

*Annualised

Source: CGIF and MARC

INTRODUCTION

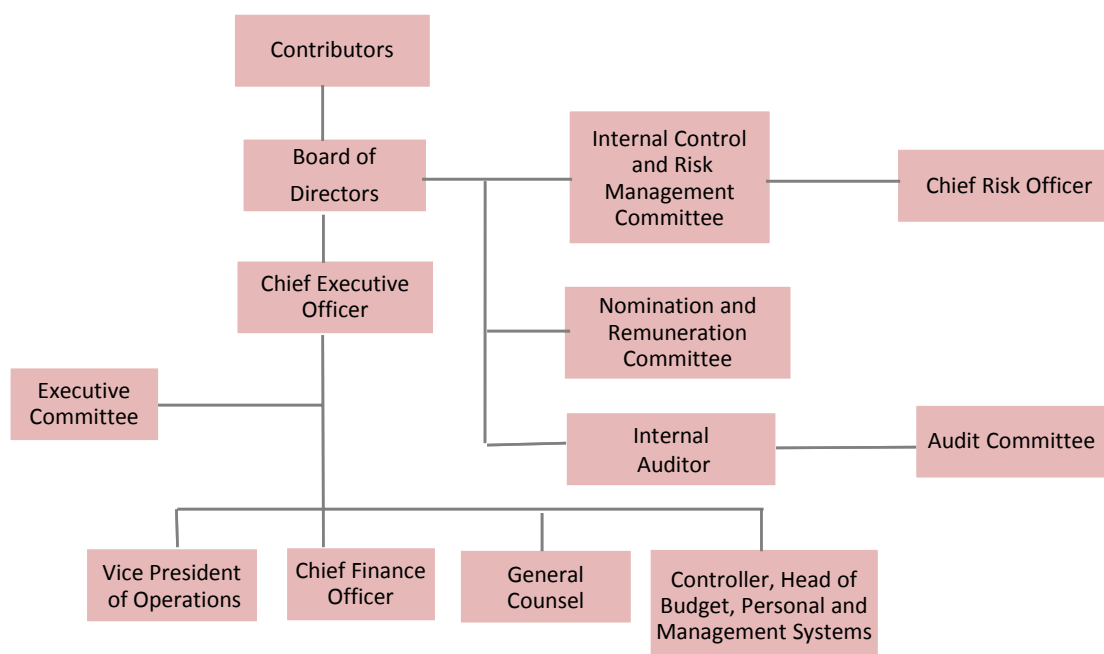
Credit Guarantee and Investment Facility (CGIF or the Facility) is a multilateral facility which was established in November 2010 by the ten members of the Association of Southeast Asian Nations (ASEAN) together with the People's Republic of China (PRC), Japan, Republic of Korea (ASEAN+3) and the Asian Development Bank (ADB) to promote economic development, stability and resilience of financial markets in the region. CGIF is set up as a trust fund of ADB, an AAA-rated supranational bank. The largest shareholders of CGIF are PRC and Japan Bank for International Cooperation (JBIC) with 28.6% of subscribed capital each, followed by ADB with 18.6% and Korea with 14.3%. CGIF's office is based in the Philippines where ADB's head office is located.

The guarantees issued by CGIF are irrevocable and unconditional commitments to pay bondholders upon non-payment by issuers throughout the tenure of the bonds.

ORGANISATION AND GOVERNANCE

The governance structure of CGIF consists of the Meeting of Contributors, an eight-member board of directors and three board committees, and two management committees. The highest decision-making body of CGIF is the Meeting of Contributors which determines the strategic objectives of CGIF, provides the board of directors and the chief executive officer (CEO) strategic guidance on the overall operation and management of CGIF, and elects the chairperson and other members of the board. It also reviews and approves the recommendations of the board on the extent of investment operations that CGIF may undertake for the development of the bond markets, the use of leverage and the maximum leverage ratio and any revision to country limits in CGIF's operations. Decisions in the Meeting of Contributors require a simple majority of shares represented at the meeting except for certain issues such as amendment of the Articles of Agreement which will require at least two-thirds majority of shares represented. Each contributor's number of votes is based on the share of that contributor in the capital stock of CGIF, which means that the largest shareholders retain the majority of decision-making power in the Facility.

Exhibit 2: Governance structure



The board of directors is the second highest decision-making body of the CGIF. Its primary role is to represent and protect the interests of the Contributors, and provide oversight over the strategy, operations and management of CGIF. CGIF's Articles of Agreement provide for a board size of eight members, including the CEO as an ex-officio member with voting rights equivalent to other directors. The board of directors comprises two representatives elected by PRC and JBIC respectively, one representative respectively elected by ASEAN as a group, Korea and ADB, and CGIF's CEO. Decisions in the board of directors require a simple majority of votes cast by directors at a meeting. 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.

STRATEGY AND OBJECTIVES

CGIF's objectives, consistent with that of the Asian Bond Market Initiative (ABMI) which was launched in 2002, are to promote the resilience of the financial markets and to prevent disruptions to the international financial order by developing deep and liquid local currency and regional bond markets in its mandated region.

Underpinning the support for CGIF's mandate is its expected contribution to the development of well-functioning and liquid local bond markets which can better cope with shocks and risks stemming from a protracted global credit crisis. CGIF is also expected to contribute to the mitigation of currency and maturity mismatches in financing, one of the recognised causes of the 1997-1998 Asian financial crisis.

CGIF's mandated development functions, which are to be undertaken on a commercial basis within the ASEAN+3 countries, are: (i) guaranteeing local currency-denominated bonds issued by investment-grade entities; (ii) guaranteeing non-local currency-denominated bonds provided the issuer is naturally and financially hedged in such currency; (iii) making investments for the development of bond markets in its mandated region; and (iv) undertaking activities and services consistent with its objectives.

CGIF's designated focus bond markets for its initial phase of operations are Indonesia, Malaysia, Philippines, Singapore and Thailand, pursuant to the perceived market potential for CGIF guarantees in these markets. Its origination efforts will, however, extend to prospective issuers in all ASEAN+3 member countries. CGIF has identified the following market niches as its target areas in the near term: (i) issuers seeking to issue longer-tenured bonds; (ii) intra ASEAN+3 cross-border deals; (iii) mid-investment grade issuers which are unable to access their local currency bond markets due to low investor risk appetite; and (iv) repeat issuers facing constraints in absorption capacity in their home markets as a result of borrower concentration limits.

DEAL FLOW AND GUARANTEE PORTFOLIO

Deal flow primarily originates from investment banks, with some transaction opportunities originating from direct inquiries or referrals. Most transaction opportunities are from Indonesia, Malaysia, Singapore, Thailand and Philippines, which are CGIF's focus bond markets. MARC observes that transactions opportunities are moderately spread among target countries. However, the issuance of guarantees is ultimately subject to restrictions arising from single risk and country limits as well as eligibility criteria. There is strong interest from companies looking to tap the local currency bond markets across the region, particularly the Singapore dollar and Thai baht markets, due to the more attractive cost of funding on an all-in basis after factoring in transaction costs and swap rates.

Since inception, CGIF has received 13 applications, six of which have been approved. Out of the approved transactions, two transactions have been signed and issued and the rest are in various stages of issuance processes.

Exhibit 3: Guarantee portfolio as at December 31, 2013

Issuer	Issue Date	Bond Issuance Venue	Issue Size	% of Guarantee by CGIF	Tenure
Noble Group Limited	April 26, 2013	Thailand	THB 2.85 billion (US\$100 million)	100%	3 years
PT BCA Finance	December 4, 2013	Indonesia	IDR300 billion (US\$25 million)	100%	3 years

As at December 31, 2013, CGIF has issued two local currency bond guarantees of THB2.85 billion and IDR300 billion to Noble Group Limited (Noble) and PT BCA Finance (BCAF) respectively. Singapore-listed Hong Kong-based Noble Group is a commodity supply chain management service provider while Indonesia-based BCAF, whose focus is on car financing, is a subsidiary of Indonesia's third-largest lender, PT Bank Central Asia. The CGIF guarantees facilitated Noble Group's and BCAF's access to the Thai baht bond market and to a Japanese institutional investor respectively for the first time. MARC notes that both entities have been tapping the bond markets regularly and are established entities with international (Noble Group) or national (BCAF) ratings that are within CGIF's chosen risk tolerances. The relatively short tenure of the guaranteed bonds also mitigates CGIF's exposure to changes in the issuers' credit fundamentals over longer time horizons.

CURRENT BUSINESS CHALLENGES AND INCREASE IN LEVERAGE RATIO

CGIF's leverage ratio was increased to 2.5:1 from 1:1 in November 2013 in order to resolve its business constraints in relation to country and currency limits. Prior to the increase in leverage ratio, CGIF's country and currency limits constrained its ability to pursue multiple transactions at a time. Its guarantee exposure limit in a particular country and currency are currently set at 20% and 40% of maximum guarantee capacity respectively. As the minimum amount of credit enhancement ranges between US\$80 million to US\$100 million per transaction and frequently up to the maximum US\$140 million under the country limit, the Facility may only guarantee at most two transactions in each country at any one time. Considering the rather uneven distribution of transactions conforming to CGIF's risk-return criteria across mandated markets, the initial country or currency limits appear to have been rather restrictive. Following the increase in leverage ratio, CGIF's guarantee capacity is now increased to US\$1.75 billion from US\$700 million, consequently increasing other prudential limits; the country limit increased to US\$350 million from US\$140 million. In addition, the requirement in its Article of Agreement and Operational Policies to reinsure guarantee exposure in excess of capital has been relaxed. This will mitigate the very limited availability of guarantee reinsurance. However, on best effort basis, CGIF will procure reinsurance from the commercial markets currently to keep the leverage ratio within 2:1. While the increase in leverage ratio increases CGIF's ability to do more business, it will expose the Facility's capital position to a higher risk profile as the Facility grows its guarantee portfolio to the new leverage limit. In addition, the Facility's absolute exposure to single country or currency will also be increased.

RISK MANAGEMENT AND CONTROLS

MARC views CGIF's risk management framework positively, with the board of directors playing a direct role in risk issues through the internal control and risk management committee (ICRMC), a board committee which is responsible for ensuring that (i) there are sound and effective systems of internal control and risk management operating to safeguard contributors' investments and CGIF's assets, and (ii) only sound guarantee and investment proposals are approved by the board. The three-member ICRMC, consisting of representatives from ASEAN (as a group), Korea and Japan, is chaired by June Shik Moon from Korea.

The risk management functions of CGIF and day-to-day management of its risks are vested in the chief risk officer (CRO), who reports to the ICRMC and the board. The CRO heads CGIF's risk management department (RMD) and is supported by risk management officers.

The risk management philosophy underpinning CGIF's risk management framework (RMF) is as follows: (i) CGIF will endeavour to comply with global best practices in risk management; (ii) the board, the guarantee and investment committee (GIC) and CEO oversee and regulate both risk taking and risk management while risk appetite setting is the sole domain of the board; (iii) continuous assessment and monitoring of risks will be undertaken through the ICRMC and CRO; (iv) there is independence of risk-taking and risk management roles; (v) CGIF will accept risks that offer the potential for commensurate rewards, in relation to both guarantee and investment activities; and (vi) risk management is embedded in procedures, processes and rewards to foster a positive risk management culture. The RMF addresses all risks to which CGIF is exposed: credit risk, market risk, liquidity risk, and operational risk.

Consistent with CGIF's risk management philosophy, the Facility's risk management policies and procedures draw on global best practices for multilateral institutions, there is a clear separation of duties between risk-taking units and risk managers, and there is in place a well-designed risk appetite framework.

Prudent Underwriting Policy and Controls

CGIF's internal credit rating system assesses the credit risk of the borrowing entity or issuer where ratings are designed to capture the likelihood of default. CGIF uses fundamental credit analysis rather than pure quantitative models to assess the credit risk of an issuer; its credit assessment process entails the review and analysis of the issuer's ownership and management, business and operating environment, historical and projected financial performance, and cash flows. Each borrowing entity assessed is assigned a rating on a 1 to 10 scale, 7 being the maximum acceptable risk rating. Generally, an internal rating of 7 is expected to correspond to a minimum rating of BB- on an 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 issued by credit rating agencies to the borrowing entities. Given that CGIF is a newly organised entity, the credit skills of members of its credit underwriting and credit risk management functions and experience are an important factor in MARC's assessment of the adequacy of CGIF's credit risk management infrastructure. CGIF is also expected to continue to enhance its internal credit rating models over time.

The preliminary assessment of an issuer is conducted by the Deal Operations Department (DOD), subsequent to which RMD provides an independent confirmation of the issuer's eligibility. The CRO/RMD is required to sign off on the guarantee underwriting proposal prepared by the DOD before it can proceed to the next stage, i.e. GIC's review. The GIC's approval is required prior to submission to the board. MARC notes that the board does not delegate discretions to approve credit exposures. Only board-approved guarantee proposals may proceed to the documentation and execution phases.

Accordingly, CGIF's guarantee portfolio is expected to consist predominantly of bonds with low risk of default. MARC expects CGIF's tight credit process to play a very important part in building a high quality guarantee portfolio.

Sound Credit Guarantee Pricing Methodology

CGIF's operational policies specify that CGIF's guarantee fees are to be market-based and reflect the risk of the underlying credit that the Facility is guaranteeing. The pricing for each guarantee transaction must take into account processing costs associated with establishing the guarantee, the transaction's expected loss [probability of default (PD) x loss given default (LGD)] and an element of capital return. MARC believes that the Facility will uphold pricing discipline by operating within the aforementioned pricing model.

Accurate PD and LGD estimates are important for appropriate pricing of the 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 estimating PD and LGD. Refinements 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. In 2013, CGIF enhanced estimates of LGD by accounting for stressed values of a borrower's assets.

Sound 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 watchlisted, 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). CGIF retains the right to accelerate the principal claim payments prior to the maturity of the debt issuance upon default of the issuer or maintain the payment schedule of the guaranteed obligations.

Exposure to Currency Risk Stemming From Local Currency Bond Guarantees

Given that CGIF's guaranteed portfolio is expected to comprise credit guarantees on bonds denominated in a wide range of ASEAN currencies, the Facility is exposed to a significant amount of foreign currency risk arising from the movement of the local currencies vis-à-vis its functional currency of the US dollar. CGIF will either receive its guarantee fees in local currency for the entire tenure of the wrapped bonds upfront or in annual instalments. Fees collected in local currency will be immediately converted to US dollars.

Foreign exchange reserves will be determined quarterly or when each guarantee proposal is being considered for approval; in the event of depreciation of the US dollar and increase in risk arising from the movement of the local currencies vis-à-vis the US dollar, additional reserves will be made to ensure CGIF maintains its leverage ratio. With regard to derivative instruments utilised by CGIF to minimise foreign currency risk, the Facility seeks to limit counterparty credit risk by executing transactions within a prudent framework of counterparties with minimum long-term credit ratings of AA (including AA-/Aa₃) and the highest short-term rating on an international rating scale, respectively.

When bonds that are not denominated in local currencies are guaranteed by CGIF, the Facility's operational policies require issuers to be naturally hedged in such currencies. Additionally, CGIF may consider financially hedged transactions. The aforementioned policy ensures that the debt service capacity of issuers who are operating in local currency and not earning US dollars or other regional currencies will not be adversely affected in the event of currency volatility and expose CGIF to credit and market risks.

Low Market Risk Appetite

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. CGIF's investment guidelines require the average duration of all outstanding investments, including floating rate-based securities, to be within five years which is expected to be the average tenure of guarantee obligations, which is expected to be about five years.

FUNDING AND LIQUIDITY

CGIF is entirely equity-funded. MARC believes that this funding profile is appropriate for CGIF in the start-up phase. Its financial policies prohibit borrowings from any source to finance its operations. However, the facility 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 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.

CAPITAL ADEQUACY AND MANAGEMENT OF CAPITAL RESOURCES

Key factors underpinning MARC's assessment of CGIF's capitalisation as strong include its high level of paid-in capital which represents 100% of subscribed capital, current leverage position and the credit quality of its guarantee portfolio. CGIF's current leverage ratio, as measured by the ratio of aggregate outstanding guarantees to total paid-in capital plus retained earnings after deducting loss reserves and illiquid investments, stands at 0.16:1 as of end-December 2013 in view of its outstanding guarantee portfolio. MARC views CGIF's leverage policy to remain sound despite CGIF's decision to increase its maximum leverage ratio to 2.5:1 from 1:1. Additionally, the rating agency expects CGIF's prudent growth and operating strategies, as laid out in its ten-year business and financial projections, will also be key factors with regard to the maintenance of a sound capital position going forward.

CGIF has developed an internal capital adequacy model with KPMG Hong Kong which considers credit Value-At-Risk (VAR) in a mark-to-model framework. The model estimates the guarantee portfolio's VAR due to credit events that include upgrades and downgrades rather than just defaults. The model employs Monte Carlo simulations to generate a loss distribution that may arise from CGIF's portfolio to estimate the economic capital needed to sustain expected losses.

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 five 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 and derivative instruments for covering risk hedges.

FINANCIAL PERFORMANCE

Operating Performance

Exhibit 4: Performance indicators

FYE 31 December	1H2013	2012	2011
Operating revenue (US\$'000)	4,105	8,009	7,538
Guarantee income (US\$'000)	108	-	-
Investment income (US\$'000)	3,931	8,008	7,054
Net profit (US\$'000)	1,463	4,109	5,851
Net interest margin (%)	1.11*	1.15	0.51
Return on asset (%)	0.41*	0.59	0.61
Return on equity (%)	0.41*	0.59	0.89
Cost to income ratio (%)	64.3	48.7	17.1

*Annualised

Source: CGIF and MARC

CGIF registered its first guarantee income in the first half of financial year ending December 2013 (1H2013) amounting to US\$108,000. While income from guarantee operations is expected to increase gradually, investment income is expected to provide the majority of its revenue in the near-to-medium term. Based on CGIF's financial projections, guarantee income is not expected to exceed investment income until 2022. Investment income stood higher at US\$3.9 million (1H2012: US\$3.7 million) in 1H2013. MARC expects investment income to be sustainable in view of CGIF's conservative investment strategy, which focuses on maintaining liquidity and security.

Net profit decreased to US\$1.5 million (1H2012: US\$2.3 million) in 1H2013 due to higher operating expenses. Personnel expense is the single largest component of operating expenses and is expected to increase as CGIF continues expanding its staff force. However, MARC expects investment income to sufficiently cover operating expenses. In the absence of any guarantee claims, net profit is expected to be healthy.

Investment Management

Exhibit 5: Allocation of funds as at June 30, 2013

Type	Amount (US\$'000)	Proportion (%)
Government or government-guaranteed obligations	691,473	97.7
Corporate obligations	11,246	1.6
Time deposits	5,064	0.7
Total	707,783	100.0

Source: CGIF

CGIF maintains a conservative investment management approach with priority given to investment liquidity and security of capital. The investment portfolio mainly constituted government or government-guaranteed debt obligations at 97.7% of total investment portfolio. These debts are rated at a minimum of 'AA-' for long-term investments and A-1 for short-term investments on an international rating scale and were issued in highly rated countries. Debts from Japan and Korea constituted more than half of the total investment portfolio. Other countries include China, Hong Kong, Norway, German, Australia, and Singapore. There is one investment in corporate debt in Singapore with an AA rating on the international rating scale. Debts rated AA- and above constituted 73.0% of the total investment portfolio.

Investments are mostly in short-term debts, reducing its risk exposure to changing interest rates. As at end-2012, investment due in one year or less constituted 53.3% (2011: 62.7%) of total investments. The remaining constitute investments due in one to five years. Nonetheless, a higher allocation has been placed in investments due in more than one year, consistent with CGIF's maximum allowable duration of five years; the maximum duration has been increased from three years. Investment durations as at end-2013 are expected to be between one and 1.25 years.

Investment returns are modest in view of CGIF’s conservative investment policy and also reflecting the low return environment. In 2012, the annualised investment rate of return after incorporating the effect of changes in fair value was 1.74% (2011: 0.91%). For 1H2013, the annualised investment return stood at 1.11% and is expected to be lower at 1.05% for 2013 due to the current low interest rate environment.

Liquidity

Exhibit 6: Proportion of liquid assets to total assets

FYE 31 December	1H2013	2012	2011
Liquid assets (US\$'000)	708,756	710,800	685,667
Total assets (US\$'000)	714,673	714,696	687,567
Liquid assets/Total assets (%)	0.99	0.99	1.00

CGIF maintains a high liquidity position with almost 100% of its assets invested in liquid assets. Liquid assets comprise of cash (0.1%), time deposits (0.7%), government and government-guaranteed securities (97.7%) and highly rated corporate obligations (1.6%).

As a contingency plan, CGIF is working with banks on global master repurchase agreement (GMRA) contracts to take advantage of repo trades in case of sudden cash requirements. The GMRA will provide CGIF with access to liquidity while reducing risk of deteriorating investment value due to forced sale of securities. CGIF is at the advanced stage of concluding the GMRA arrangements with banks.

MANAGEMENT

CEO Kiyoshi Nishimura is a seasoned development banker who was formerly acting director of the European Bank for Reconstruction and Development’s Financial Institutions Business Group. He has also held senior positions at the Japan Bank for International Cooperation, Export-Import Bank of Japan and the International Monetary Fund. He is supported by Aarne Dimanlig, the chief risk officer, and Boo Hock Khoo, CGIF's vice president overseeing its operations, both of whom possess respectable backgrounds in risk management and financial guarantee operations respectively. The depth of CGIF’s executive team and strong operational support from ADB should place the Facility on sound footing as a new entrant to the financial guarantee sector.

STRENGTH OF MEMBER SUPPORT

Over 90% of CGIF’s capital is owned by highly creditworthy member countries rated single A and above on an international scale (PRC, Japan, Republic of Korea, Malaysia and Singapore) and the AAA-rated supranational ADB. In the remote scenario of a near-term call for capital from CGIF’s contributors, MARC believes that the likelihood that support will be extended is very high taking into account the financial strength of its major contributors and their past demonstrated commitment to ABMI and other complementary initiatives such as the Asian Bond Fund.

The unique status of CGIF as a trust fund of a multilateral development institution and key component of ABMI is expected to elicit continued support from its key contributors, given their historically demonstrated commitment to regional cooperation initiatives related to bond market development.

SHAREHOLDING AND GOVERNANCE INFORMATION

BOARD OF DIRECTORS

Xinqiang Zhu (Chairman)
Chen Shixin
Kouji Kawashima
Nao Kawakami
June Shik Moon
Robert Pakpahan
Christine Engstorm
Kiyoshi Nishimura (Chief Executive Officer)

CONTRIBUTORS

People's Republic of China	28.6%
Japan Bank for International Cooperation	28.6%
Republic of Korea	14.3%
ASEAN countries (as a group)	9.9%
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
Hou Hock Lim	Controller and Head of Budget, Personnel and Management Systems
Jackie Jeong-Ae Bang	Internal Auditor

AUDITORS

Deloitte Touche LLP, Singapore

REGISTERED OFFICE

CREDIT GUARANTEE AND INVESTMENT FACILITY

37/F Oakwood Building
Joy Nostalg Centre
17 ADB Avenue, Ortigas Center
Pasig City, 1600 Manila
Philippines

**CREDIT GUARANTEE AND INVESTMENT FACILITY
STATEMENT OF FINANCIAL POSITION**

(USD'000)

Financial Year Ending : December 31

ASSETS:

	1H2013	2012	2011	2010
Cash	973	1,709	1,325	1
Time deposits	5,064	88,000	264,716	35,159
Investments	702,719	621,091	419,626	613,338
Receivable from swaps	-	-	-	596,416
Accrued Revenue from investment	3,497	2,903	1,590	467
Guarantee fee receivables	1,479	-	-	-
Other Assets	941	993	310	-
TOTAL ASSETS	714,673	714,696	687,567	1,245,381

LIABILITIES & MEMBER'S EQUITY

Guarantee Liability	1,669	-	-	-
Payable for swaps	-	-	-	613,612
Payable to other fund	2	12	28	-
Accrued expenses	142	127	289	-
Other Liabilities	350	696	670	-
TOTAL LIABILITIES	2,163	835	987	613,612

MEMBERS' EQUITY

Capital stock	700,000	700,000	681,099	631,100
(Unrealised loss on sale of investment)	406	3,220	(1,051)	(12)
Reserve	10,641	6,532	-	-
Retained Earnings	1,463	4,109	6,532	681
TOTAL	712,510	713,861	686,580	631,769
TOTAL	714,673	714,696	687,567	1,245,381

**CREDIT GUARANTEE AND INVESTMENT FACILITY
STATEMENT OF NET INCOME**

(USD'000)

Financial Year Ending : December 31

	1H2013	2012	2011	2010
REVENUE :				
Income on guarantees	108	-	-	-
Interest income on investments	3,931	8,008	3,414	228
Net realised gains from investments	-	-	3,640	-
Others	66	1	484	64
	4,105	8,009	7,538	292
EXPENSES:				
Administrative expenses	2,147	2,937	603	-
Financial expenses	24	37	17	-
Depreciation expenses	118	234	2	-
Other miscellaneous expenses	350	696	670	-
	2,639	3,904	1,292	-
TOTAL OPERATING INCOME	1,466	4,105	6,246	292
CHANGES IN FAIR VALUE OF DERIVATIVES	-	-	(388)	389
TRANSLATION LOSS	(3)	4	(7)	-
NET INCOME	1,463	4,109	5,851	681
OTHER COMPREHENSIVE INCOME				
Unrealised (Loss)/Gain on AFS Investments	(2,814)	4,271	(1,039)	(12)
TOTAL COMPREHENSIVE INCOME	(1,351)	8,380	4,812	669

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 B 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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MARC, its rating committee members and analysts involved in the aforementioned rating have not encountered and/or are not aware of any conflict of interest situation.

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