

CREDIT ANALYSIS

Counterparty Credit Rating Multilateral Facility



MALAYSIAN RATING CORPORATION BERHAD
(364803-V)

CREDIT GUARANTEE AND INVESTMENT FACILITY

Rating Review – 2016

Date	Rating Action	Current Rating	Outlook
January 2016	Affirmed	AAA/MARC-1	Stable
Rating History	Rating Action	Rating	Outlook
January 2015	Affirmed	AAA/MARC-1	Stable
February 2014	Affirmed	AAA/MARC-1	Stable
January 2013	Assigned	AAA/MARC-1	Stable
Rating Methodology	Financial Guarantee Insurer Rating Approach		
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CREDIT ANALYSIS



COUNTERPARTY CREDIT RATING/MULTILATERAL FACILITY
Rating Review - 2016

CREDIT GUARANTEE AND INVESTMENT FACILITY

Major Rating Factors

Strengths

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

Challenges

- Business risks pertaining to credit spreads and interest rates

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 reflects CGIF's strong capital position and conservative liquidity management, underpinned by its sound policy guidelines and governance structure. CGIF was established by ASEAN members together with China, Japan, South Korea (ASEAN+3) and Asian Development Bank to promote the development of local currency and regional bond markets by providing guarantees on local currency bonds issued in ASEAN+3 countries.

MARC notes that CGIF's guarantee portfolio has grown at a modest pace since its incorporation in November 2010, with the total guarantee amount standing at US\$587 million as at end-October 2015 (end-2014: US\$476 million). The moderate business growth has been attributed to CGIF's stringent underwriting policy and process in accordance with its mandate. Additionally, ceiling limits on ASEAN+3 countries to mitigate geographic concentration risks have capped growth in guarantee transactions in countries where demand has been strong.

As at end-October 2015, Indonesian corporates accounted for 39.2% (or US\$230 million) of CGIF's total guarantee portfolio, while in terms of currency, Singapore dollar-denominated issuances made up a sizeable 64.9% (or US\$381 million). Nonetheless, CGIF's limits for both geographic and currency are within its policy guidelines; its country and currency limits stood at US\$357 million and US\$715 million respectively as at end-October 2015. CGIF's exposure to currency risk is mitigated by its periodic marked-to-market adjustments of its guarantee exposure to ensure the leverage ratio is within a conservative 2.5:1 ratio. CGIF also requires issuers to hedge their currency exposure in respect of the guaranteed debt throughout programme tenures. MARC notes that among CGIF's seven guaranteed issuers is Noble Group Limited, whose credit profile has weakened in recent months. CGIF has an exposure of THB2.85 billion (or US\$80 million) to the issuer through a guaranteed bond which is scheduled to mature in April 2016. However, the increased credit risk is mitigated by CGIF's strong liquidity and capitalisation.

CGIF's strong capital position is reflected by its low leverage ratio which, as measured by the total outstanding guarantee amount to total equity after deducting illiquid investments, stood at 0.82:1 as at end-October 2015 (2014: 0.67:1). While the leverage ratio could rise to 1.19:1 by taking into account CGIF's approved deals, this would remain within its established limit. MARC understands that CGIF intends to seek fresh capital from its contributors over the near term to increase its guarantee capacity which stood at US\$1.79 billion as at end-October 2015. For 1H2015, CGIF's guarantee income rose sharply to US\$2.2

million on an increase in new deals which were secured in 2H2014. This notwithstanding, investment income remained the main revenue contributor, accounting for a sizeable 63.1% of operating revenue in 1H2015. Net profit doubled to US\$4.2 million in 1H2015 from the previous corresponding period last year. This translated into higher annualised returns on asset and equity of 1.13% and 1.17% respectively (1H2014: 0.57%; 0.57%)

CGIF's liquidity position remains healthy, with liquid assets accounting for 97.1% of its total assets as at end-June 2015 (2014: 96.5%). MARC also notes that to reduce the risk of forced sales of securities should guarantees be called, CGIF has an arrangement with a financial institution for a credit line to meet exigencies. In respect of investments, CGIF recently increased its fund allocation to securities with higher credit quality and market liquidity: government debt rated AA+ and above on a global scale increased to 45% of CGIF's total investment portfolio as at end-August 2015 (end-June 2014: 31%). CGIF has also been increasing its investments in longer-term bonds and plans to gradually increase its portfolio duration to 3.0 years from 1.8 years as at end-June 2015 (2014: 1.5 years). This will allow CGIF to benefit from higher investment yields while maintaining a conservative investment approach.

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	1H2015[^]	2014	2013	2012	2011
Operating revenue (US\$'000)	7,312	10,132	8,132	8,009	7,538
Net profit (US\$'000)	4,189	3,548	2,718	4,109	5,851
Return on average earning assets (%)	1.28*	1.23	1.07	1.15	1.06
Return on asset (%)	0.56*	0.49	0.38	0.59	0.61
Return on equity (%)	0.58*	0.50	0.38	0.59	0.89
Cost to income ratio (%)	40.3	64.6	66.4	48.7	17.1
Investment yields (%)	1.28*	1.16	1.07	1.15	1.06
Total assets (US\$'000)	742,403	740,486	717,973	714,696	687,567
Liquid assets/Total assets (%)	97.1	96.5	99.2	99.5	99.7
Leverage ratio [#]	0.65:1	0.67:1	0.16:1	-	-

[^] Unaudited

*Annualised

[#] Calculated based on mark-to-market value for issued guarantees

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. 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's objectives are to promote the development, stability and resilience of financial markets by helping to develop deep and liquid local currency and regional bond markets. To this end, CGIF guarantees local currency-denominated bonds issued by investment-grade entities. It will also guarantee non-local currency-denominated bonds provided the issuer is naturally or financially hedged in such currency. Its activities are undertaken on a commercial basis only within the ASEAN+3 countries. 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

As at end-October 2015, CGIF had provided guarantees to eight issuances with a total guarantee amount of US\$587 million (end-2014: seven issuances; US\$476 million). During the 10-month period ended October 2015 (10M2015), CGIF closed one deal with a guarantee value of US\$139 million (2014: five deals totaling US\$345 million). The new guarantee issued during 10M2015 was for a Singapore dollar-denominated 10-year bond issuance by IVL Singapore Pte. Ltd (IVLS), a 99.6%-owned subsidiary of Thailand-based Indorama Ventures Public Company Limited. This company is primarily involved in manufacturing and distribution of petrochemical products. IVLS provides treasury and financial services to its parent.

MARC understands that CGIF has three deals in the pipeline amounting to US\$269 million. The growth of new guaranteed issuances in the period was partly constrained by country ceiling limits in line with CGIF's underwriting policy to avert concentration risk. In particular, the country where demand has been strong have almost reached the limits. CGIF intends to seek fresh capital from its contributors in the near term to increase its guarantee capacity. This notwithstanding, slower economic growth in the ASEAN region may weigh on domestic bond issuance activities.

MARC notes that among CGIF's seven guaranteed issuers is Noble Group Limited whose credit profile has weakened in recent months. CGIF has an exposure of THB2.85 billion (or US\$80 million) to the issuer through a guaranteed bond which is scheduled to mature in April 2016. However, the increased credit risk is mitigated by CGIF's strong liquidity and capital positions.

Guaranteed portfolio exhibits concentration risk but within policy guidelines

Exhibit 2: Guarantee portfolio

Issuer	Issuers' base country	Issue Date	Currency of issuance	Issue size (US\$ equivalent)*	Tenure	Maturity
Noble Group Limited	China	Apr 2013	Thai Baht	80 million	3 years	Apr 2016
PT BCA Finance	Indonesia	Dec 2013	Indonesia Rupiah	22 million	3 years	Dec 2016
PT BCA Finance	Indonesia	Mar 2014	Indonesia Rupiah	9 million	3 years	Mar 2017
Kolao Holdings	Laos	Aug 2014	Singapore Dollar	43 million	3 years	Aug 2017
Protelindo Finance BV	Indonesia	Nov 2014	Singapore Dollar	128 million	10 years	Nov 2024
Masan Consumer Holdings	Vietnam	Dec 2014	Vietnamese Dong	94 million	10 years	Dec 2024
PT Astra Sedaya Finance	Indonesia	Dec 2014	Singapore Dollar	71 million	3 years	Dec 2017
IVL Singapore Pte. Ltd	Thailand	Oct 2015	Singapore Dollar	139 million	10 years	Oct 2025
Total				587 million		

Source: CGIF

* Based on exchange rate as at end-October 2015

CGIF's guarantee portfolio reflects moderate geographic concentration risk with Indonesian corporates accounting for 39.2% (or US\$230 million) of the total guaranteed portfolio. In terms of currency, Singapore dollar-denominated issuances made up a sizeable 64.9% (or US\$381 million) of the total guarantee portfolio as at end-October 2015. However, CGIF's limits for both geographic and currency concentration are within its policy guidelines. As at end-October 2015, CGIF has the capacity to guarantee up to US\$1.79 billion with country and currency limits of US\$357 million and US\$715 million respectively. MARC also observes that the recent guarantees provided by CGIF comprise larger guarantee amounts and in certain cases are provided on a clean basis.

Exposure to currency risk stemming from local currency bond guarantees

As CGIF's guaranteed portfolio comprises credit guarantees on bonds denominated in several ASEAN currencies, it is exposed to currency risk given that its functional currency is the US dollar. Nonetheless, this is mitigated by CGIF's periodic marked-to-market adjustments of its guarantee exposure to ensure the leverage ratio is within its maximum limit of 2.5:1. 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. With regard to derivative instruments utilised to address foreign currency risk, CGIF deals with counterparties which have minimum long-term credit ratings of AA (including AA-/Aa3) and the highest short-term rating on an international rating scale. This approach limits counterparty credit risk.

CGIF receives its guarantee fees upfront in local currency for the entire tenure of the wrapped bonds or in annual instalments. Fees collected in local currency are immediately converted to US dollars. MARC also draws comfort from the fact that CGIF's operational policies require issuers' 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.

FINANCIAL PERFORMANCE

Operating performance

Exhibit 3: Performance indicators

FYE 31 December	1H2015[^]	1H2014[^]	2014	2013	2012	2011
Operating revenue (US\$'000)	7,312	4,877	10,132	8,132	8,009	7,538
Guarantee income (US\$'000)	2,204	386	1,345	421	-	-
Investment income [#] (US\$'000)	4,611	4,490	8,287	7,645	8,008	7,054
Net profit (US\$'000)	4,189	2,042	3,548	2,718	4,109	5,851
Average investment yields (%)	1.28*	1.26*	1.23	1.07	1.15	0.51
Return on asset (%)	1.13*	0.57*	0.49	0.38	0.59	0.61
Return on equity (%)	1.17*	0.57*	0.50	0.38	0.59	0.89
Cost-to-income ratio (%)	40.3	58.1	64.6	66.4	48.7	17.1

[^] Unaudited

* Annualised

[#] Including trading gains from securities

Source: CGIF and MARC

For 1H2015, CGIF's guarantee income rose sharply to US\$2.2 million on an increase in new deals which were secured in 2H2014. This notwithstanding, investment income remained the main revenue contributor, accounting for a sizeable 63.1% of operating revenue in 1H2015. CGIF recorded a loss of US\$0.2 million from foreign exchange in 1H2015. With net profit doubling to US\$4.2 million, the annualised return on asset and equity of 1.13% and 1.17% were higher than the corresponding period last year.

Investment management

Exhibit 4: Allocation of funds

Type	Amount (US\$ million)			Proportion (%)		
	1H2015	2014	2013	1H2015	2014	2013
Government and government-guaranteed obligations	644.4	666.6	690.2	89.6	93.5	97.3
Corporate obligations	10.5	10.7	11.2	1.5	1.5	1.6
Time deposits	64.1	35.6	8.0	8.9	5.0	1.1
Total	719.0	712.9	709.4	100.0	100.0	100.0

Source: CGIF

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

CGIF maintains a conservative investment approach as reflected by the substantial allocation of 85% of its funds in government and government-guaranteed debt obligations rated at AA- and above on the international rating scale as at end-August 2015. Its liquidity profile is further enhanced by increasing investments in securities of high credit quality and market liquidity such as AAA-rated supranational bonds and US treasuries. Correspondingly, it reduced government debt holdings issued by Japan. The shift has led to government debt obligations rated AA+ and above increasing to 45% of the total investment portfolio as at end-August 2015 (end-June 2014: 31%). In terms of composition, US treasuries constituted the third largest investment in CGIF's portfolio (15%), followed by government and government-guaranteed debt obligations of China (19%) and Korea (19%).

MARC also observes CGIF's increased allocation to investment securities with higher duration. Investments maturing within two to five years constituted 75% of total investments as at end-August 2015, increasing from 51% as at end-2013. Accordingly, the average effective duration of CGIF's investment portfolio increased to 1.8 years as at end-June 2015 (2013: 1.1 years), resulting in an increase in the annualised investment rate of return to 1.28% in 1H2015 (2014: 1.23%; 2013: 1.07%). MARC understands that CGIF plans to gradually increase its portfolio duration to 3.0 years to benefit from higher investment yields. 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	1H2015 [^]	2014	2013	2012	2011
Total assets (US\$'000)	742,403	740,486	717,973	714,696	687,567
Total equity (US\$'000)	721,534	716,499	715,232	713,861	686,580
Leverage ratio (x)*	0.65	0.67	0.16	-	-

Source: CGIF, MARC

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

MARC considers CGIF's capital position to be sound, as reflected in its comparable Basel II capital adequacy ratio of 22% as at end-June 2015. In addition, its leverage ratio¹ rose to 0.82:1 as at end-October 2015 (1H2015: 0.65:1) although remained low against its maximum limit of 2.5:1. The leverage ratio could rise to 1.19:1 by taking into account CGIF's approved deals amounting to US\$269 million. However, MARC understands that CGIF will maintain its net leverage ratio (net of reinsurance) at 2:1. The conservative leverage policy would to some extent mitigate risks arising from the lack of callable capital.

Liquidity

Exhibit 6: Proportion of liquid assets to total assets

FYE 31 December	1H2015 [^]	2014	2013	2012	2011
Liquid assets (US\$'000)	720,857	714,761	712,427	710,800	685,667
Total assets (US\$'000)	742,403	740,486	717,973	714,696	687,567
Liquid assets/Total assets (%)	97.1	96.5	99.2	99.5	99.7

Source: CGIF

¹ 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.

CGIF's sound liquidity profile is underpinned by its conservative investment approach. Liquid assets accounted for 97.1% of its total assets as at end-June 2015. Further mitigating liquidity risk arising from sudden cash requirements is the global master repurchase agreement (GMRA) with Credit Suisse Securities (Europe) Limited. The GMRA provides CGIF with access to liquidity while reducing the risk of forced sales of securities.

MANAGEMENT

There have been no changes in the key management positions since the last review. Kiyoshi Nishimura remains the chief executive officer of CGIF, supported by Aarne Dimanlig, the chief risk officer; TongSop Song, the chief financial officer; and Boo Hock Khoo, vice president, operations. The management team is widely experienced in key areas of the financial services industry both globally and within the ASEAN region. MARC continues to view the depth of expertise of CGIF's management team positively.

STRENGTH OF MEMBER SUPPORT

MARC opines a strong likelihood of support being extended to CGIF from its shareholders, which are highly creditworthy member countries (PRC, Japan, Republic of 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 Asian Bond Markets Initiative (ABMI). This is further underpinned by the financial strength of its main contributors and their past demonstrated commitment to regional cooperation initiatives related to bond market development.

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) and a board committee. The ICRMC is responsible for ensuring that there are sound and effective systems of internal control and risk management operating to safeguard contributors' investment and CGIF's assets, and that only sound guarantees and investment proposals are approved by the board. 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.

The risk management philosophy underpinning CGIF's risk management framework (RMF) is as follows:

- i. 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 undertaken through the ICRMC and CRO;
- iv. independence of risk taking and risk management roles;
- v. accept risks that offer the potential for commensurate rewards, in relation to both guarantee and investment activities; and
- vi. risk management embedded in procedures, processes and rewards to foster a positive risk management culture.

Consistent with CGIF's risk management philosophy, its 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 to assess the credit risk of the borrowing entity or issuer is designed to capture the likelihood of default. The credit assessment process entails 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 highest level of 1 onwards to 10; 7 being the minimum 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 on the borrowing entities. The credit skills of members of its credit underwriting and credit risk management functions and experience remain important factors in MARC's assessment of the adequacy of CGIF's credit risk management infrastructure.

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, the GIC's review. The GIC's approval is required prior to submission to the board. MARC notes that the board does not delegate discretion 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.

Sound credit guarantee pricing methodology

CGIF's guarantee fees are market-based and reflect the risk of the underlying credit being guaranteed. The pricing for each guarantee transaction takes into account the expected loss [probability of default (PD) x loss given default (LGD)] and an element of capital return. Additionally, CGIF will assess processing costs associated with establishing the guarantee as the all-in financing cost should be comparable to market rates available to the issuer in order for the transaction to be economically viable. 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 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 has enhanced the estimate 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.

FUNDING AND LIQUIDITY

CGIF's operations are entirely funded by its paid-in capital which represents 100% of subscribed capital. CGIF may increase its paid-up capital by vote of at least two-thirds of the number of its contributors who collectively hold 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 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 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 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.

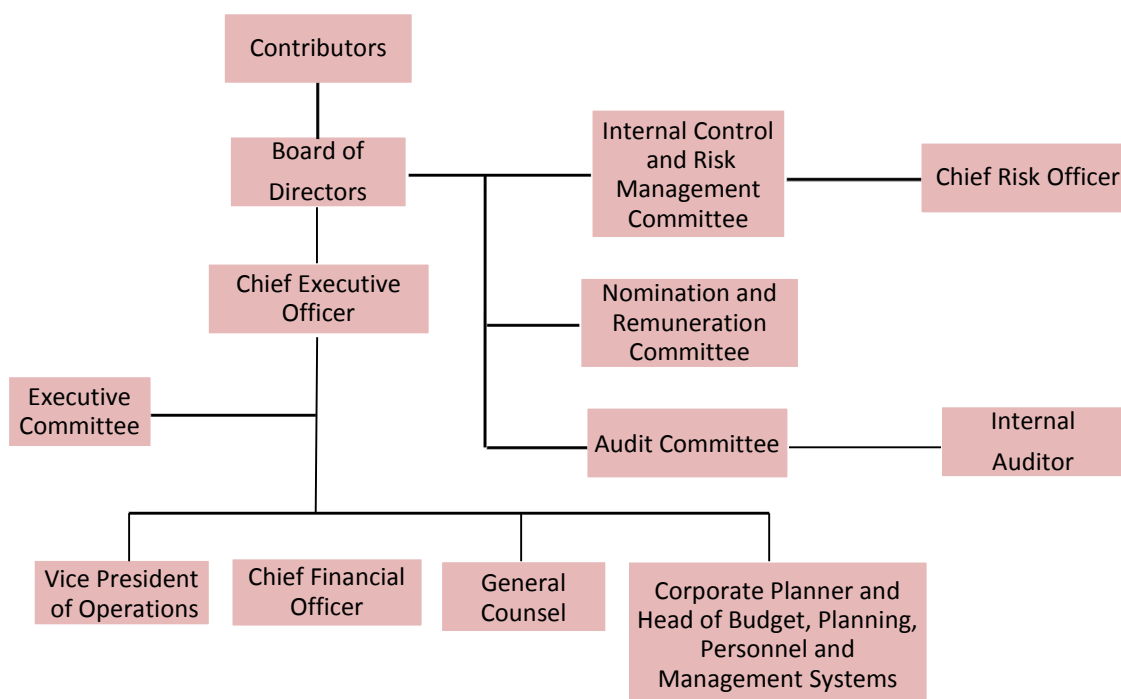
CGIF's principal interest rate risk management objective is to generate stable overall interest income from the investment of its equity resources that is not overly sensitive to significant interest rate fluctuations but is adequately responsive to general market trends.

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

BOARD OF DIRECTORS

Jian Li (Chairman, China)
Junhong Chang (China)
Fumihiko Yamada (Japan)
Tsutomu Sato (Japan)
Chang-Ho Jung (Korea)
Robert Pakpahan (ASEAN)
Christine Engstrom (ADB)
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	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	Corporate Planner and Head of Budget, Planning, Personnel and Management Systems
Jackie Jeong-Ae Bang	Internal Auditor

AUDITORS

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

	1H2015	2014	2013	2012	2011	Change (%)			
						1H2015	2014	2013	2012
ASSETS:									
Cash	1,894	1,905	3,053	1,709	1,325	(0.6)	(37.6)	78.6	29.0
Time deposits	64,106	35,599	8,001	88,000	264,716	80.1	>100	(90.9)	(66.8)
Investments	654,857	677,257	701,373	621,091	419,626	(3.3)	(3.4)	12.9	48.0
Receivable from swaps	-	-	-	-	-	n.m.	n.m.	n.m.	n.m.
Accrued Revenue from investment	2,378	4,150	3,226	2,903	1,590	(42.7)	28.6	11.1	82.6
Guarantee fee receivables	18,337	20,732	1,183	-	-	(11.6)	>100	n.m.	n.m.
Other Assets	831	843	1,137	993	310	(1.4)	(25.9)	14.5	>100
TOTAL ASSETS	742,403	740,486	717,973	714,696	687,567	0.3	3.1	0.5	3.9
LIABILITIES & MEMBER'S EQUITY									
Guarantee Liability	20,347	22,510	1,769	-	-	(9.6)	>100	n.m.	n.m.
Payable for swaps	-	-	-	-	-	n.m.	n.m.	n.m.	n.m.
Payable to other fund	-	-	-	12	28	n.m.	n.m.	(100.0)	(57.1)
Accrued expenses	166	777	272	127	289	(78.6)	>100	>100	(56.1)
Other Liabilities	356	700	700	696	670	(49.1)	n.m.	0.6	3.9
TOTAL LIABILITIES	20,869	23,987	2,741	835	987	(13.0)	>100	>100	(15.4)
MEMBERS' EQUITY									
Capital stock	700,000	700,000	700,000	700,000	681,099	n.m.	n.m.	n.m.	2.8
Unrealised gain/(loss) on sale of investment	437	(408)	1,873	3,220	(1,051)	>100	<(100)	(41.8)	>100
Reserve	16,908	13,359	10,641	6,532	-	26.6	25.5	62.9	n.m.
Retained Earnings	4,189	3,548	2,718	4,109	6,532	18.1	30.5	(33.9)	(37.1)
	721,534	716,499	715,232	713,861	686,580	0.7	0.2	0.2	4.0
TOTAL	742,403	740,486	717,973	714,696	687,567	0.3	3.1	0.5	3.9

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

(USD'000)

Financial Year Ending : December 31

REVENUE :

	1H2015	2014	2013	2012	2011	Change (%)			
	1H2015	2014	2013	2012	2011	1H2015	2014	2013	2012
Income on guarantees	2,204	1,345	421	-	-	>100	>100	n.m.	n.m.
Income on investments	4,400	8,287	7,645	8,008	7,054	6.2	8.4	(4.5)	13.5
Net realised gains from investments	211	487	-	-	-	(13.3)	n.m.	n.m.	n.m.
Others	497	13	66	1	484	>100	(80.3)	>100	(99.8)
	7,312	10,132	8,132	8,009	7,538	44.3	24.6	1.5	6.2

EXPENSES:

Administrative expenses	2,471	5,511	4,405	2,937	603	(10.3)	25.1	50.0	>100
Financial expenses	23	56	49	37	17	(17.9)	14.3	32.4	>100
Depreciation expenses	106	276	246	234	2	(23.2)	12.2	5.1	>100
Other miscellaneous expenses	350	700	700	696	670	0.0	n.m.	0.6	3.9
	2,950	6,543	5,400	3,904	1,292	(9.8)	21.2	38.3	>100

TOTAL OPERATING INCOME

CHANGES IN FAIR VALUE OF DERIVATIVES

TRANSLATION (LOSS)/ GAIN

NET INCOME

OTHER COMPREHENSIVE INCOME

Unrealised (Loss)/Gain on AFS Investments

TOTAL COMPREHENSIVE INCOME

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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