KDN NO: PP9914/10/2012(030812)
CD 93480

CREDIT ANALYSIS

Project Finance
Property

MALAYSIAN RATING CORPORATION BERHAD
(364803-V)

CREDIT GUARANTEE AND INVESTMENT FACILITY

Rating Review – 2015

Date	Rating Action	Current Rating	Outlook
January 2015	Affirmed	AAA/MARC-1	Stable

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

Methodology Financial Guarantee Insurer Rating Approach

Contact Analysts
Oo Chin Kai chinkai@marc.com.my
Sharidan Salleh sharidan@marc.com.my

(603) 2082 2200

Publication Date: January 14, 2015

This credit analysis report is published in relation to the press announcement made on January 13, 2015.

CREDIT ANALYSIS

COUNTERPARTY CREDIT RATING/MULTILATERAL FACILITY
Rating Review - 2015

CREDIT GUARANTEE AND INVESTMENT FACILITY

Major Rating Factors

Strengths

- Conservative leverage and liquidity management policies and practices;
- Strong credit underwriting practices mitigate risks;
- Sound governance structure; and
- Multilateral status and strong support from main shareholders.

Challenges
- Business risks pertaining to credit spreads and interest rates; and
- Developing core earnings.

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 reflect CGIF's strong capital position and claims-paying resources relative to its risk exposure, underpinned by its sound leverage policy and governance structure.

Established in November 2010 as a trust fund of Asian Development Bank (ADB), CGIF provides guarantees mainly on local currency bonds issued by creditworthy corporations domiciled in thirteen member countries of ASEAN+3 (Association of Southeast Asian Nations + China, Japan and Korea). CGIF has continued to make steady but slower-than-expected progress, achieving a guarantee portfolio issuance size of US$505 million for six issuers as at end-December 2014 (end-2013: US$125 million; two issuers). CGIF was formed by ASEAN+3 together with ADB to develop and strengthen local currency and regional bond markets. MARC understands that the fairly lengthy legal documentation process for issuing entities, mainly due to the different jurisdictions within the ASEAN region, has also been a factor for the slower pace of issuances. To expedite the bond transaction process, CGIF is establishing standard documentation for each country in the region. CGIF also remains highly selective in its guarantee business, emphasing on quality rather than volume. While a revision in prudential limits in November 2013 has resulted in an increase in its capacity to guarantee up to US$1.75 billion with country and currency limits of US$350 million and US$700 million respectively, CGIF continues to maintain a fairly stringent internal rating system to assess the credit risk of potential issuers.

MARC observes that CGIF's leverage position remains sound with a leverage ratio of about 0.72:1 as at end-December 2014, well below its maximum leverage ratio of 2.5:1. During 2014, CGIF was able to widen its pool of issuers to include those operating in Laos and Vietnam, namely Kolao Holdings (Kolao) and Masan Consumer Holdings Company Limited (MCH) respectively. CGIF provided guarantees on Kolao's SGD60 million (US$48 million) and MCH's VND2.1 trillion (US$100 million) issuances; other guaranteed issuances are PT BCA Finance's (BCAF) Rp120 million (US$12 million), Protelindo Finance BV's (Protelindo) SGD180 million (US$140 million), and PT Astra Sedaya Finance's (ASF) SGD100 million (US$80 million) issuances. MARC notes that BCAF, Protelindo and ASF operate in Indonesia. MARC expects CGIF to continue to be prudent by mitigating business and geographic concentration risks. In seeking a more diversified portfolio, CGIF recently established a strategic collaboration agreement with financial guarantee insurer Danajamin Nasional Berhad in Malaysia for co-guarantee opportunities.

CGIF maintains a conservative investment approach, prioritising investment liquidity and capital preservation. Its investment portfolio predominantly comprises highly rated debt obligations issued by government and government-related entities, rated at a minimum AA- on the international rating scale with short-term maturities of less than three years. The annualised investment rate of return, excluding the changes in fair value, remained modest at 1.26% in 1H2014 (1H2013: 1.11%) due to CGIF's prudent investment approach and the low interest rate environment.

CGIF's revenue continues to be driven by investment income that contributed 92.1% of total income of US$4.9 million in 1H2014 (1H2013: 95.8%, US$4.1 million). This notwithstanding, MARC notes that CGIF posted higher guarantee income (1H2014: US$386,000; 1H2013: US$108,000) in line with the increase in its guarantee portfolio. Overall, net profit increased to US$2.0 million (1H2013: US$1.5 million) as income growth outpaced the rise in operating expense arising from an increased staff force. MARC opines operating profit will remain healthy in the near term as investment income is more than sufficient to cover operating expenses, barring any guarantee claims.

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	**1H2014**	**2013**	**2012**	**2011**
Operating revenue (US$'000)	4,877	8,132	8,009	7,538
Net profit (US$'000)	2,042	2,718	4,109	5,851
Return on average earning assets (%)	1.26*	1.07	1.15	1.06
Return on asset (%)	0.57*	0.38	0.59	0.61
Return on equity (%)	0.57*	0.38	0.59	0.89
Cost to income ratio (%)	58.1	66.4	48.7	17.1
Total assets (US$'000)	718,534	717,973	714,696	687,567
Liquid assets/Total assets (%)	99.2	99.2	99.5	99.7

**Annualised*
Source: CGIF and MARC

INTRODUCTION

Credit Guarantee and Investment Facility (CGIF) was established in November 2010 by ten members of the Association of Southeast Asian Nations (ASEAN) together with China, Japan, Korea (+3) and the Asian Development Bank (ADB). CGIF was set up as a trust fund of ADB, which is an AAA-rated 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 as well as developing deep and liquid local currency and regional bond markets in its mandated region. The mandated development functions, which are to be undertaken on a commercial basis within the ASEAN+3 countries, are: (1) guaranteeing local currency-denominated bonds issued by investment-grade entities; (2) guaranteeing non-local currency-denominated bonds provided the issuer is naturally and financially hedged in such currency; (3) making investments for the development of bond markets in its mandated region; and (4) undertaking activities and services consistent with its objectives. Please refer to Appendix 1 for further details.

RECENT DEVELOPMENTS

Strategic collaboration with Danajamin

CGIF recently entered a collaboration with Danajamin Nasional Berhad (Danajamin) to generate more opportunities for co-guaranteeing corporate bond issuers which may have or seek to expand operations in Malaysia. Danajamin is a Malaysian financial guarantee insurer providing guarantees for financially viable corporations to access the Malaysian bond market. Danajamin carries a financial guarantee insurer rating of AAA/MARC-1 from MARC. CGIF is expected to leverage on Danajamin's knowledge of the Malaysian debt capital market in their collaborative efforts.

Operational update

In January 2014, the accounting and financial control function was fully transferred from ADB to CGIF following the completion of CGIF's general ledger accounting system as well as accounting policies, procedures and workflows. This is expected to improve CGIF's financial monitoring capability. CGIF's treasury operations will continue to be managed by ADB in accordance with the investment strategies and performance benchmarks determined by CGIF.

BUSINESS REVIEW

CGIF's deals flow has been primarily from investment banks, with some transactions originating from direct inquiries or referrals. MARC understands that interest from corporates in the ASEAN+3 seeking to issue local currency bonds have been largely in the Singapore dollar and Thai baht markets due to the relatively attractive all-in funding costs. MARC notes that transaction opportunities were somewhat inclined towards a particular country and currency and as a result, CGIF's guaranteed portfolio exhibited some concentration risk in terms of country and currency. Nonetheless, concentration risk is mitigated by CGIF's country and currency limits. As at end-December 2014, CGIF has the capacity to guarantee up to US$1.75 billion with country and currency limits of US$350 million and US$700 million respectively.

CGIF's guaranteed portfolio increased to USD505 million as at end-December 2014 from USD125 million as at end-December 2013. In 2014, the FGI guaranteed PT BCA Finance's (BCAF) Rp120 million (US$12 million), Kolao Holdings' (Kolao) SGD60 million (USD48 million), Protelindo Finance BV's (Protelindo) SGD180 million (US$140 million), Masan Consumer Holdings Company Limited's (MCH) VND2.1 trillion (USD100 million) and PT Astra Sedaya Finance's (ASF) SGD100 million (USD80 million) bond issuances, bringing the number of guaranteed bond issuances to seven as at end-December 2014 (end-December: two). BCAF, Protelindo and ASF operate in Indonesia while Kolao and MCH operate in Laos and Vietnam respectively.

The guarantee on Protelindo's issuance was the largest amount guaranteed by CGIF, followed by the guarantee on MCH's issuance. Protelindo is a funding vehicle for its parent, PT Profesional Telekomunikasi Indonesia, which is mainly involved in the leasing of telecommunication towers in Indonesia while MCH is a Vietnam-based company which mainly undertakes the manufacturing and distribution of a range of food products and beverages. Both issuances have a ten-year tenure. BCAF has an existing issuance guaranteed by CGIF. Both BCAF and ASF are financial services companies based in Indonesia. Meanwhile, Kolao is a large private conglomerate which was established in 1997 and listed on the Korea Exchange in 2010. The company is based in Laos. Its main business is the manufacturing and sale of its own completely-knocked-down trucks and motorcycles and distributing Hyundai and Kia automobiles.

MARC understands that the pace of guaranteed issuances was slow due partly to the relatively lengthy process of finalising the legal documentation required by regulators and investors for initial issuance in a new country. To expedite the guaranteed bond transaction process, CGIF is establishing standard documentation for each country. Between end-August 2013 and end-August 2014, six guarantee proposals were approved by the board, an increase from three guarantee proposals approved in the previous corresponding period. However, MARC notes that two bond issuances did not take place while the remaining three guarantee proposals are at various stages of the issuance process.

Exhibit 2: Guarantee portfolio as at December 22, 2014

Issuer	Issue Date	Bond Issuance Venue	Issue Size	% of Guarantee by CGIF	Tenure
Noble Group Limited	April 26, 2013	Thailand	THB2.85 billion (US$100 million)	100%	3 years
PT BCA Finance	December 4, 2013	Indonesia	IDR300 billion (US$25 million)	100%	3 years
PT BCA Finance	March 18, 2014	Indonesia	IDR120 billion (US$12 million)	100%	3 years
Kolao Holdings	August 21, 2014	Singapore	SGD60 million (US$48 million)	100%	3 years
Protelindo Finance BV	November 27, 2014	Singapore	SGD180 million (US$140 million)	100%	10 years
Masan Consumer Holdings	December 8, 2014	Vietnam	VND2.1 trillion (US$100 million	100%	10 years
PT Astra Sedaya Finance	December 18, 2014	Singapore	SGD100 million (US$80 million)	100%	3 years

Source: CGIF

FINANCIAL PERFORMANCE

Operating Performance

Exhibit 3: Performance indicators

FYE 31 December	1H2014	2013	2012	2011
Operating revenue (US$'000)	4,877	8,132	8,009	7,538
Guarantee income (US$'000)	386	421	-	-
Investment income (US$'000)	4,490	7,645	8,008	7,054
Net profit (US$'000)	2,042	2,718	4,109	5,851
Return on average earning assets (%)	1.26	1.07	1.15	0.51
Return on asset (%)	0.57	0.38	0.59	0.61
Return on equity (%)	0.57	0.38	0.59	0.89
Cost-to-income ratio (%)	58.1	66.4	48.7	17.1

Source: CGIF and MARC

For the first six months of 2014 (1H2014), CGIF recorded higher guarantee income of US$386,000 compared to US$108,000 in 1H2013 on the back of an increased guarantee portfolio. Investment income, however, remains the main revenue contributor, increasing to US$4.5 million (1H2013: US$3.9 million). Overall, net profit increased to US$2.0 million in 1H2014 (1H2013: US$1.5 million). MARC expects investment income in the near to medium term to adequately cover CGIF's cost of operations, barring any claims on its guarantee business.

Investment Management

Exhibit 4: Allocation of funds as at June 30, 2014

Type	Amount (US$'000)	Proportion (%)
Government or government-guaranteed obligations	696,030	97.9
Corporate obligations	10,985	1.6
Time deposits	3,742	0.5
Total	**710,757**	**100.0**

Source: CGIF

CGIF's conservative investment approach prioritises the liquidity of portfolio and security of capital. Government and government-guaranteed debt obligations rated at a minimum "AA-" rating on the international rating scale comprised 97.9% of the investment portfolio as at end-June 2014. MARC notes that 67% of CGIF's investment portfolio comprised debt obligations issued in Japan, Korea and China while the remainder were debt obligations issued in Australia, Germany, Netherlands, Norway, Singapore and the US.

CGIF's investment guidelines require the average duration of its outstanding investments to be within five years. The duration limit ensures that the investment portfolio is not overly sensitive to interest rate fluctuations and that its portfolio management is adequately responsive to general market trends. As at end-June 2014, MARC notes that 70% of CGIF's investment portfolio comprised investments maturing within one to five years (end-2013: 51%) with the reminder maturing within one year. The annualised investment rate of return excluding effect of changes in fair value was 1.26% in 1H2014 (1H2013: 1.11%).

Capital Adequacy

Exhibit 5: Capital adequacy

FYE 31 December	1H2014	2013	2012	2011
Total assets (US$'000)	718,534	717,973	714,696	687,567
Total equity (US$'000)	716,472	715,232	713,861	686,580

Source: CGIF

MARC views CGIF's capitalisation as strong given its low 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 0.72:1 as of end-December 2014. This leverage ratio is sound and well below its maximum leverage ratio of 2.5:1. MARC expects CGIF's growth plans to be in line with a prudent approach to its leverage position.

Liquidity

Exhibit 6: Proportion of liquid assets to total assets

FYE 31 December	1H2014	2013	2012	2011
Liquid assets (US$'000)	712,898	712,427	710,800	685,667
Total assets (US$'000)	718,534	717,973	714,696	687,567
Liquid assets/Total assets (%)	99.2	99.2	99.5	99.7

Source: CGIF

CGIF maintained a sound liquidity position as 99% of its assets were highly liquid assets, mainly represented by its holdings of government and government-guaranteed securities. Liquidity risk from sudden cash requirements may be further mitigated by the global master repurchase agreement (GMRA) with the bank that provides CGIF with access to liquidity while reducing the risk of forced sales of securities.

MANAGEMENT

There have been no significant changes in the board or in 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 of 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

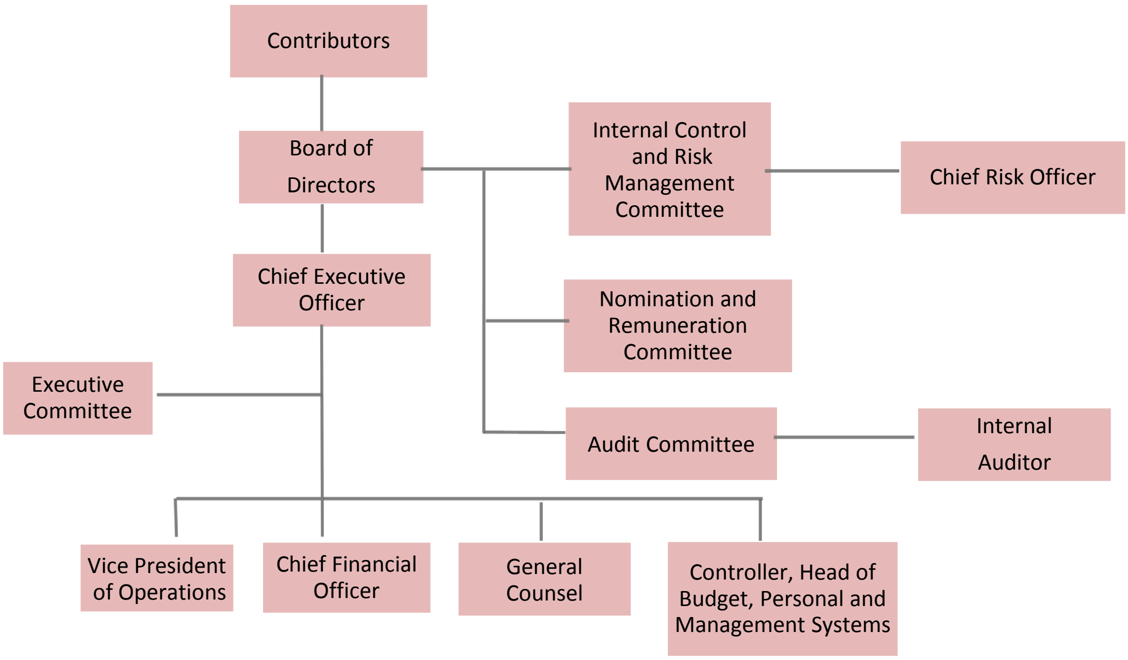
Over 90% of CGIF's capital is owned by highly creditworthy member countries rated single A and above on an international scale (PRC, Japan, Republic of Korea, Malaysia and Singapore) and the AAA-rated supranational ADB. MARC opines that there is a strong likelihood of support being extended to CGIF in the event of need based on its status as a trust fund of a multilateral development institution and key component of 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.

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

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) 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

The guarantees issued by CGIF are irrevocable and unconditional commitments to pay bondholders upon non-payment by issuers throughout the tenure of the bonds. 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. 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. 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, 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. 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 takes into account the transaction's 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. Nonetheless, MARC opines that CGIF will uphold its 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 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.

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.

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 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.

SHAREHOLDING AND GOVERNANCE INFORMATION

BOARD OF DIRECTORS
Liu Liange (Chairman)
Chang Junhong
Nao Kawakami
Atsushi Inoue
June Shik Moon
Robert Pakpahan
Christine Engstrom
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	1H2014	2013	2012	2011	2010	Change (%) 1H2014	2013	2012	2011
ASSETS:									
Cash	2,141	3,053	1,709	1,325	1	(29.9)	78.6	29.0	>100
Time deposits	3,742	8,001	88,000	264,716	35,159	(53.2)	(90.9)	(66.8)	>100
Investments	707,015	701,373	621,091	419,626	613,338	0.8	12.9	48.0	(31.6)
Receivable from swaps	-	-	-	-	596,416	n.m.	n.m.	n.m.	<(100)
Accrued Revenue from investment	3,810	3,226	2,903	1,590	467	18.1	11.1	82.6	>100
Guarantee fee receivables	958	1,183	-	-	-	(19.0)	n.m.	n.m.	n.m.
Other Assets	868	1,137	993	310	-	(23.7)	14.5	>100	n.m.
TOTAL ASSETS	**718,534**	**717,973**	**714,696**	**687,567**	**1,245,381**	0.1	0.5	3.9	(44.8)
LIABILITIES & MEMBER'S EQUITY									
Guarantee Liability	1,585	1,769	-	-	-	(10.4)	n.m.	n.m.	n.m.
Payable for swaps	-	-	-	-	613,612	n.m.	n.m.	n.m.	(100.0)
Payable to other fund	-	-	12	28	-	n.m.	(100.0)	(57.1)	n.m.
Accrued expenses	127	272	127	289	-	(53.3)	>100	(56.1)	n.m.
Other Liabilities	350	700	696	670	-	(50.0)	0.6	3.9	n.m.
TOTAL LIABILITIES	**2,062**	**2,741**	**835**	**987**	**613,612**	(24.8)	>100	(15.4)	(99.8)
MEMBERS' EQUITY									
Capital stock	700,000	700,000	700,000	681,099	631,100	n.m.	n.m.	2.8	7.9
(Unrealised loss on sale of investment)	1,071	1,873	3,220	(1,051)	(12)	(42.8)	(41.8)	>100	<(100)
Reserve	13,359	10,641	6,532	-	-	25.5	62.9	n.m.	n.m.
Retained Earnings	2,042	2,718	4,109	6,532	681	(24.9)	(33.9)	(37.1)	>100
	716,472	**715,232**	**713,861**	**686,580**	**631,769**	0.2	0.2	4.0	8.7
TOTAL	**718,534**	**717,973**	**714,696**	**687,567**	**1,245,381**	0.1	0.5	3.9	(44.8)

STATEMENT OF NET INCOME

(USD'000) Financial Year Ending : December 31	1H2014	2013	2012	2011	2010	Change (%) 1H2014	2013	2012	2011
REVENUE :									
Income on guarantees	386	421	-	-	-	83.4	n.m.	n.m.	n.m.
Income on investments	4,490	7,645	8,008	7,054	228	17.5	(4.5)	13.5	>100
Others	1	66	1	484	64	(97.0)	>100	(99.8)	>100
	4,877	**8,132**	**8,009**	**7,538**	**292**	19.9	1.5	6.2	>100
EXPENSES:									
Administrative expenses	2,314	4,405	2,937	603	-	5.1	50.0	>100	n.m.
Financial expenses	28	49	37	17	-	14.3	32.4	>100	n.m.
Depreciation expenses	141	246	234	2	-	14.6	5.1	>100	n.m.
Other miscellaneous expenses	350	700	696	670	-	-	0.6	3.9	n.m.
	2,833	**5,400**	**3,904**	**1,292**	-	4.9	38.3	>100	n.m.
TOTAL OPERATING INCOME	**2,044**	**2,732**	**4,105**	**6,246**	**292**	49.6	(33.4)	(34.3)	>100
CHANGES IN FAIR VALUE OF DERIVATIVES	-	-	-	(388)	389	n.m.	n.m.	100.0	<(100)
TRANSLATION (LOSS)/ GAIN	(2)	(14)	4	(7)	-	71.4	<(100)	>100	n.m.
NET INCOME	**2,042**	**2,718**	**4,109**	**5,851**	**681**	50.3	(33.9)	(29.8)	>100
OTHER COMPREHENSIVE INCOME									
Unrealised (Loss)/Gain on AFS Investments	(803)	(1,347)	4,271	(1,039)	(12)	(19.2)	<(100)	>100	<(100)
TOTAL COMPREHENSIVE INCOME	**1,239**	**1,371**	**8,380**	**4,812**	**669**	80.7	(83.6)	74.1	>100

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 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.

THIS PAGE IS INTENTIONALLY LEFT BLANK

-- Disclaimer --

Ratings are solely statements of opinion and therefore shall not be taken as a statement of fact under circumstance. The information which MARC relies upon to assign its ratings includes publicly available and confidentially provided information obtained from issuers and its advisers including third-party reports and/or professional opinions which MARC reasonably believes to be reliable. MARC assumes no obligation to undertake independent verification of any information it receives and does not guarantee the accuracy, completeness and timeliness of such information. MARC OR ITS AFFILIATES, SUBSIDIARIES AND EMPLOYEES DISCLAIM ANY WARRANTY, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO ANY WARRANTY AS TO THE ACCURACY OR COMPLETENESS, MERCHANTIBILITY OR FITNESS OF ANY INFORMATION CONTAINED HEREIN FOR ANY PARTICULAR PURPOSE AND SHALL NOT IN ANY EVENT BE HELD RESPONSIBLE FOR ANY DAMAGES, DIRECT OR INDIRECT, CONSEQUENTIAL OR COMPENSATORY, ARISING OUT OF THE USE OF SUCH INFORMATION. Any person making use of and/or relying on any credit analysis report produced by MARC and information contained therein solely assumes the risk in making use of and/or relying on such reports and all information contained therein and acknowledges that this disclaimer has been read and understood, and agrees to be bound by it.

A credit rating is not a recommendation to buy, sell or hold any security and/or investment. Any user of this report should not rely solely on the credit rating and analysis contained in this report to make an investment decision in as much as it does not address non-credit risks, the adequacy of market price, suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security concerned.

Ratings may be changed, placed on MARCWatch, suspended or withdrawn at any time for any reason at the sole discretion of MARC. MARC may make modifications to and/or amendments in credit analysis reports including information contained therein at any time after publication as it deems appropriate.

MARC receives fees from its ratees, and has structured reporting lines and compensation arrangements for its analytical members in a manner designed to promote the integrity of its rating process, and to eliminate and/or manage actual and/or potential conflicts of interest.

-- Statement of Conflict of Interest ---

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.

Published and Printed by:

MALAYSIAN RATING CORPORATION BERHAD (364803-V)
5th Floor, Bangunan Malaysian Re, No 17 Lorong Dungun, Damansara Heights, 50490 KUALA LUMPUR
Tel: [603] 2082 2200 Fax: [603] 2094 9397 E-mail: marc@marc.com.my
H-page : www.marc.com.my