KDN NO: PP9914/10/2012(030812)
CCR RMAT 1306976503 - 7823

CREDIT ANALYSIS

Counterparty Credit Rating
Multilateral Facility

MALAYSIAN RATING CORPORATION BERHAD
(364803-V)

CREDIT GUARANTEE AND INVESTMENT FACILITY

Rating Review – 2018

Date	Rating Action	Current Rating	Outlook
January 2018	Affirmed	AAA / MARC-1	Stable

Rating History	Rating Action	Rating	Outlook
January 2017	Affirmed	AAA / MARC-1	Stable
January 2016	Affirmed	AAA / MARC-1	Stable
January 2015	Affirmed	AAA / MARC-1	Stable

Rating Methodology Financial Guarantee Insurer Rating Approach

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Publication Date: January 16, 2018

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CREDIT ANALYSIS

COUNTERPARTY CREDIT RATING/MULTILATERAL FACILITY
Rating Review - 2018

CREDIT GUARANTEE AND INVESTMENT FACILITY

Major Rating Factors

Strengths

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

Challenges/Risks

- Guarantees are to private sector companies.

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

The affirmed ratings reflect CGIF's strong capital and liquidity positions which are underpinned by sound policy guidelines and a strong governance structure. Manila-based CGIF is a trust fund of Asian Development Bank (ADB) that was set up by 10 member countries of ASEAN along with China, Japan and South Korea (ASEAN+3) as well as ADB in November 2010 to provide guarantees on local currency-denominated bonds issued by corporations from these countries. CGIF is a key component of the Asian Bond Market Initiative (ABMI) to develop regional bond markets.

CGIF's guarantee portfolio comprises 11 issuers with a total outstanding guaranteed amount of US$923.8 million as at end-November 2017. Of this amount, about 25% of its exposure is ceded to reinsurers. With a deal amounting to US$85 million pending issuance, CGIF is currently assessing several other deals worth US$1.1 billion. The slow pace of growth of its guarantee portfolio is partly attributed to CGIF's stringent underwriting standards and partly to the immaturity of local corporate bond markets. CGIF's shareholders have agreed to increase the trust fund's paid-in capital to US$1.2 billion by end-2023 from the current US$700 million. The capital increase will further boost CGIF's maximum guarantee capacity (MGC) from US$1.83 billion as at end-June 2017.

CGIF's guarantee portfolio exhibits limited diversification given its small size. As at end-November 2017, the top five largest issuances, net of reinsurance, collectively accounted for 61% of total equity of US$735.7 million. In terms of currency exposure, Singapore dollar-denominated issuances dominated at 46% of the total net guaranteed amount of US$692.9 million (18% of MGC), followed by Vietnamese dong-denominated issuances at 30% (11% of MGC). However, CGIF's exposures remain within its established country limit and currency exposure of 20% and 40% respectively of its MGC.

CGIF's net leverage ratio of 0.98:1 indicates sufficient capital to cover its guarantees and is well below its internal limit of 2.50:1. Its net leverage ratio could increase to 1.07:1 if the pending deal is approved. CGIF's capital base is also protected by reinsurance cover from a consortium led by Munich Re. Its "no debt" financial policy, meanwhile, prevents the institution from leveraging its capital base through external debt. In MARC's view, the implementation of IFRS 9 in 2018 is not expected to have a significant impact on CGIF's capital given that its financial assets mainly comprise highly rated bonds.

For the six months ended June 30, 2017 (1H2017), CGIF reported a higher net profit of US$5.3 million which was 16.6% higher than the corresponding period of the previous year. Investment income grew by 15.5% y-o-y to US$5.6 million. Yield on its investments was higher at 1.52% on an annualised basis largely due to increased holdings of longer-term bonds.

CGIF maintains a highly liquid balance sheet that allows it to maintain significant flexibility to address its operational obligations in an environment of constrained market liquidity without dependence on its shareholders. Liquid assets accounted for 94.9% of total assets as at end-June 2017, underpinned by substantial investments in low-risk debt obligations issued by government and government-related entities, which comprised 82.0% of total investments as at end-June 2017. Additionally, CGIF's exposure to a large liquidity call arising from the default of any guaranteed obligation is somewhat mitigated by CGIF's ability to maintain the payment schedule of the obligations.

The stable ratings outlook reflects MARC's expectations 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	**1H2017^**	**2016**	**2015**	**2014**	**2013**
Operating revenue (US$'000)	9,191	18,666	14,751	10,132	8,132
Net profit (US$'000)	5,267	10,082	7,781	3,548	2,718
Return on assets (%)	1.38*	1.32	1.04	0.49	0.38
Return on equity (%)	1.44*	1.39	1.08	0.50	0.38
Cost to income ratio (%)	43.5	42.1	44.5	64.6	66.4
Average investment yields (%)	1.52*	1.46	1.30	1.23	1.08
Total assets (US$'000)	775,792	772,002	751,569	740,486	717,973
Liquid assets/Total assets (%)	94.9	94.3	96.0	96.5	99.2
Shareholders' funds (US$'000)	735,728	727,521	722,557	716,499	715,232
Net guarantee amount (US$'000)	692,882**	649,448	583,787	475,569	111,358
Net leverage ratio#	0.98:1**	0.91:1	0.81:1	0.67:1	0.16:1

^ Unaudited
** Annualised*
 # The net leverage ratio is measured by the aggregate outstanding guarantees (taking into consideration the ceded guarantee exposures and credit risk of reinsurers) to total paid-in capital plus retained earnings after deducting loss reserves and illiquid investments
*** Based on net guarantee amount and foreign currency exchange rates as at November 30, 2017*
Source: CGIF and MARC

BACKGROUND

Credit Guarantee and Investment Facility (CGIF) was established in November 2010 by 10 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 that also acts as the trustee of CGIF. 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 South Korea with 14.3%. As a trust fund of the ADB, CGIF has the same privileges, immunities and exemptions accorded to ADB, including immunity from juridical proceedings and freedom of assets from restrictions in member countries.

As a key component of the Asian Bond Market Initiative (ABMI), CGIF's chief mandate is to develop the region's bond markets by providing guarantees on local currency-denominated bonds issued by corporations domiciled in 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 for further details.)*

BUSINESS REVIEW

Guarantee portfolio growth remained moderate

During the first 11 months of the financial year ending December 31, 2017 (11M2017), CGIF provided guarantees to two new issuers (ASA Philippines Foundation and Mobile World Investment Corporation) with total issuances amounting to US$72.3 million (2016: five issuers; US$403.7 million). ASA Philippines Foundation is a non-profit corporation specialising in microfinance while Mobile World Investment Corporation is a Vietnam-based retail company. The new issuances were partially offset by redemptions of US$50.3 million by PT BCA Finance and Kolao Holdings during the period. As at end-November 2017, the outstanding guarantee amount increased slightly to US$923.8 million (end-2016: US$865.9 million), comprising 11 issuers operating in Indonesia, Vietnam, Thailand, the Philippines, Singapore and Malaysia (Exhibit 2).

Excluding the reinsurance portion, CGIF's net guarantee amount currently stands at US$692.9 million; under an arrangement with a reinsurance consortium led by Munich Re, 25% of CGIF's existing exposures and new guarantees written from October 2016 to December 2017 are ceded to the consortium if they meet certain reinsurance criteria.

Exhibit 2: Guarantee portfolio as at end-November 2017

Issuer	Issuers' base country	Issue date	Currency of issuance	Gross amount (US$ mil equivalent)	Tenure (years)	Maturity
PT Professional Telekomunikasi Indonesia	Indonesia	Nov 2014	Singapore dollar	133.5	10	Nov 2024
Masan Consumer Holdings	Vietnam	Dec 2014	Vietnamese dong	92.4	10	Dec 2024
PT Astra Sedaya Finance	Indonesia	Dec 2014	Singapore dollar	74.2	3	Dec 2017
IVL Singapore Pte. Ltd	Thailand	Oct 2015	Singapore dollar	144.6	10	Oct 2025
Vingroup Joint Stock Company	Vietnam	Feb 2016	Vietnamese dong	132.1	5 & 10	Feb 2021 (US$87 mil) Feb 2026 (US$47 mil)
AP Renewables, Inc.	Philippines	Mar 2016	Philippine peso	93.3	10	Mar 2026
PT Mitra Pinasthika Mustika Finance	Indonesia	Mar 2016 & Apr 2016	Indonesia rupiah	22.2	3	Mar 2019 (US$12 mil) Apr 2019 (US$11 mil)
Fullerton Heathcare Corporation Ltd	Singapore	Jul 2016	Singapore dollar	74.2	5 & 7	Jul 2021 (US$37 mil) Jul 2023 (US$37 mil)
KNM Group Berhad	Malaysia	Nov 2016	Thai baht	85.2	5	Nov 2021
ASA Philippines Foundation	Philippines	Feb 2017 & Jun 2017	Philippine peso	22.3	5 & 5	Feb 2022 (US$15 mil) Jun 2022 (US$8 mil)
Mobile World Investment Corporation	Vietnam	Nov 2017	Vietnamese dong	50.0	5	Nov 2022
Total				**923.8**		
Noble Group Limited	China	Apr 2013	Thai baht	80.0	3	Matured in Apr 2016
PT BCA Finance	Indonesia	Dec 2013 & Mar 2014	Indonesia rupiah	32.0	3	Matured in Dec 2016 Matured in Mar 2017
Kolao Holdings	Laos	Aug 2014	Singapore dollar	42.1	3	Matured in Aug 2017

Source: CGIF
Note: Foreign currency exchange rates are as at November 30, 2017

Capital increase to cater for potential growth

During 11M2017, CGIF approved a guarantee transaction amounting to US$85.0 million and has secured 10 deals worth RM1.0 billion in the pipeline. In view of the potential business growth, CGIF's shareholders have agreed to increase the authorised and paid-in capital to US$1.2 billion from US$700 million with capital payment to be made between 2018 and 2023. The capital increase would boost CGIF's maximum guarantee capacity (MGC)[1] which stood at US$1.83 billion as at end-June 2017.

Guarantee portfolio exhibits concentration risks

CGIF's guarantee portfolio exhibits some concentration risk but remains within its established single exposure limits. Its current exposure limit for country is 20% of MGC or US$366 million, currency limit is 40% of MGC or US$732 million and single borrower/group limit is 20% of CGIF's paid-in capital or US$140 million. However, CGIF's exposures are within its internal guidelines. On excluding the reinsurance portion, CGIF's top five largest issuances collectively accounted for about 61% of total equity as at end-November 2017. Among them are those issued by IVL Singapore Pte Ltd (US$108.5 million), PT Professional Telekomunikasi Indonesia (US$100.1 million) and Vingroup Joint Stock Company (US$99.0 million).

In terms of country exposure, Vietnam and Indonesia remained the largest, accounting for 30% (US$206 million) and 25% (US$172 million) respectively of CGIF's total net guarantee amount. Singapore dollar-denominated issuances dominated CGIF's guarantee portfolio at 46% (US$320 million), followed by Vietnamese dong-denominated issuances (30%; US$206 million).

Currency risk arising from local currency bond guarantees

As CGIF's guarantee portfolio comprises credit guarantees on bonds denominated in several ASEAN currencies, it is exposed to currency risk given that the US dollar is its functional currency. For guarantee fee receivables, CGIF manages the foreign currency risk by entering foreign exchange forwards with counterparties with a minimum short-term issuer rating of A-1 on the international rating scale. It also monitors the value of its guarantee portfolio in US dollars on a regular basis and increases foreign exchange reserves should the US dollar depreciate against the local currencies. For cross-border issuers, CGIF's operational policies require their guaranteed foreign currency denominated 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 is not adversely affected by currency volatility.

Low credit risk of reinsurers

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

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

FINANCIAL PERFORMANCE

Operating performance

Exhibit 3: Performance indicators

FYE 31 December	1H2017^	1H2016^	2016	2015	2014	2013
Gross guarantee income (US$'000)	4,679	3,670	8,035	4,782	1,368	423
Net guarantee income (US$'000)	3,576	3,670	7,158	4,664	1,368	423
Investment income (US$'000)	5,602	4,851	10,432	9,268	8,287	7,646
Net realised gains from disposal of investments (US$'000)	(2)	-	509	219	487	-
Net profit (US$'000)	5,267	4,516	10,082	7,781	3,548	2,718
Average investment yields (%)	1.52*	1.34*	1.46	1.30	1.23	1.07
Return on assets (%)	1.38*	1.18*	1.32	1.04	0.49	0.38
Return on equity (%)	1.44*	1.24*	1.39	1.08	0.50	0.38
Cost-to-income ratio (%)	43.5	45.9	42.1	44.5	64.6	66.4

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

CGIF's net profit rose by 29.6% to US$10.1 million in 2016, mainly supported by higher guarantee income from expanded guarantee portfolios. During 2016, CGIF managed to acquire eight new guarantee portfolios. Investment income, which accounted for 54.3% of revenue, also increased by 12.6% to US$10.4 million on a higher investment yield of 1.46% (2015: 1.30%).

For 1H2017, CGIF's gross guarantee income increased by 27.5% year-on-year (y-o-y) to US$4.7 million, supported by new deals secured in 2H2016. However, partly due to the reinsurance arrangement since 4Q2016, net guarantee income has remained flat at US$3.6 million. Investment income increased by 15.5% y-o-y to US$5.6 million, largely due to an improved annualised investment yield of 1.52% on increased holdings of longer-term bonds. Net profit rose by 16.6% y-o-y to US$5.3 million in 1H2017, with both returns on asset and equity standing higher at 1.38% and 1.44% respectively.

Investment management

Exhibit 4: Allocation of funds

	Amount (US$ million)			Proportion (%)		
Type	**1H2017**	**2016**	**2015**	**1H2016**	**2016**	**2015**
Government and government-guaranteed obligations	601.2	608.7	646.4	82.0	83.9	90.0
Corporate obligations	109.7	109.3	65.1	15.0	15.1	9.1
Time deposits	22.5	7.7	6.8	3.1	1.1	0.9
Total	**733.4**	**725.7**	**718.3**	**100.0**	**100.0**	**100.0**

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

CGIF's investments are managed by ADB which acts as a trustee for CGIF's investments. CGIF maintains a conservative investment approach, as reflected by the substantial allocation of 82.0% of its funds to debt obligations issued by government and government-related entities as at end-June 2017. Additionally, it continues to invest in highly-rated fixed income investments; 93% of total bond holdings are rated AA- and above on the international rating scale and the remaining 7% are rated A+ as at end-September 2017. The fixed income investments which comprise government or corporate debt obligations in advanced economies have continued to support CGIF's strong liquidity profile.

CGIF has been increasing its holdings of longer-term bonds. Accordingly, the average effective duration of its investment portfolio rose to 2.6 years as at end-June 2017 (1H2016: 2.1 years) but remained well within its limit of 5 years as per policy guidelines. This notwithstanding, the higher average investment duration increased CGIF's investment yield as well as its sensitivity to interest rate movement. Based on CGIF's interest rate sensitivity analysis, a 100 basis points increase in interest rate will result in US$18.8 million of unrealised losses which is more than CGIF's annual net profit.

Capital adequacy

Exhibit 5: Capital adequacy

FYE 31 December	1H2017^	2016	2015	2014	2013
Total assets (US$'000)	775,792	772,002	751,569	740,486	717,973
Total equity (US$'000)	735,728	727,521	722,557	716,499	715,232
Net guarantee amount (US$'000)	692,882**	649,448	583,787	475,569	111,358
Net leverage ratio	0.98:1**	0.91:1	0.82:1	0.67:1	0.16:1
Basel II capital adequacy ratio (%)	28.0	25.3	26.7	28.9	n.a.

Source: CGIF, MARC

Note: *The net leverage ratio is measured by the aggregate outstanding guarantees (taking into consideration the ceded guarantee exposures and credit risk of reinsurers) to total paid-in capital plus retained earnings after deducting loss reserves and illiquid investments*

*** Based on net guarantee amount and foreign currency exchange rates as at November 30, 2017*

CGIF's capital position remains sound as reflected by its net leverage ratio of 0.98:1. MARC views that the leverage ratio could increase to 1.07:1 if CGIF's pending deal of US$85.0 million is approved. Nonetheless, the ratio would remain within CGIF's internal limit of 2.50:1. CGIF's shareholders have approved the increase in the authorised and paid-in capital to US$1.2 billion from US$700 million in December 2017.

MARC also understands that CGIF's financial policies prohibit borrowings to finance its operations except for short-term borrowings for cash management purposes. The conservative leverage and financial policies mitigate risks arising from the lack of callable capital. On the implementation of IFRS 9, MARC does not expect a significant impact on CGIF's capital given that its financial assets mainly comprise highly rated bonds.

Liquidity

Exhibit 6: Proportion of liquid assets to total assets

FYE 31 December	1H2017^	2016	2015	2014	2013
Liquid assets (US$'000)	736,017	727,930	721,455	714,761	712,427
Total assets (US$'000)	775,792	772,002	751,569	740,486	717,973
Liquid assets/Total assets (%)	94.9	94.3	96.0	96.5	99.2

Source: CGIF

CGIF's liquidity profile remained sound, as reflected by liquid assets-to-total assets of 94.9% as at end-June 2017. The liquid assets mainly comprised holdings of government and government-guaranteed securities, corporate debt and time deposits.

Liquidity risk arising from sudden cash requirements may be mitigated by the global master repurchase agreement (GMRA) with a financial institution. The GMRA provides CGIF with access to liquidity and reduces the risk of undertaking forced sales of securities. CGIF also retains the right to maintain the payment schedule of the guaranteed obligations or accelerate the principal claim payments prior to the maturity of the debt issuance upon default of the issuer. This option would minimise liquidity risk in the event of claims.

MANAGEMENT

There have been no significant changes in the board and key management positions since the last review. The management team is led by Chief Executive Officer (CEO), Kiyoshi Nishimura who has expertise and extensive global experience in the financial services industry to guide the team to meet CGIF's objectives. MARC views positively the depth of expertise of CGIF's management.

STRENGTH OF MEMBER SUPPORT

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

RISK MANAGEMENT AND CONTROLS

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

Prudent underwriting policy and controls

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

The credit risk assessment of a borrowing entity is conducted by the Deal Operations Department (DOD). The RMD validates the credit assessment, assigns an internal credit rating to the borrowing entity and issues a credit risk note to the guarantee and investment committee (GIC) and the board. The DOD submits a guarantee concept proposal for the GIC's approval before formal due diligence on a borrowing entity is conducted. Subsequent to the due diligence, the DOD submits a guarantee underwriting proposal for the GIC's review. The GIC's approval is required prior to submission of the proposal to the board. MARC notes that beginning April 2017, CGIF has introduced the Alternative Guarantee Approval Process (AGAP). Under the AGAP, the Board delegated its approval authority to the GIC for transactions meeting the following conditions (i) guarantee amount is US$50 million or less; (ii) guarantee tenure is five years or less; and (iii) Internal Risk Rating is 6.0 (BB+) or better. If the proposal is approved, the guarantee offer letter will be issued and the process will follow the normal guarantee process.

Sound credit guarantee pricing methodology

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

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

Strong credit portfolio management processes

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

FUNDING AND LIQUIDITY

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

Through the ICRMC, the board has oversight of CGIF's liquidity and liquidity risk exposure and sets controls on CGIF's exposure to liquidity risk. The Chief Financial Officer (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, of which the implementation will be monitored by the GIC.

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

MANAGEMENT OF CAPITAL RESOURCES

CGIF's capital resources are currently placed with its trustee (ADB) 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 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.

SHAREHOLDING AND GOVERNANCE INFORMATION (as at November 8, 2017)

BOARD OF DIRECTORS
Jian Li (Chairman, China)
Li Hongxia (China)
Hitoshi Nagano (Japan)
Yasuo Takamura (Japan)
Sun-joon Jun (Korea)
Siti Zauyah Mohd Desa (ASEAN)
Stefan Hruschka (ADB)
Kiyoshi Nishimura (Chief Executive Officer)

CONTRIBUTORS

People's Republic of China	28.57%
Japan Bank for International Cooperation	28.57%
Asian Development Bank	18.57%
Republic of Korea	14.28%
ASEAN countries	10.00%

MANAGEMENT

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

AUDITOR
Deloitte Touche LLP, Singapore

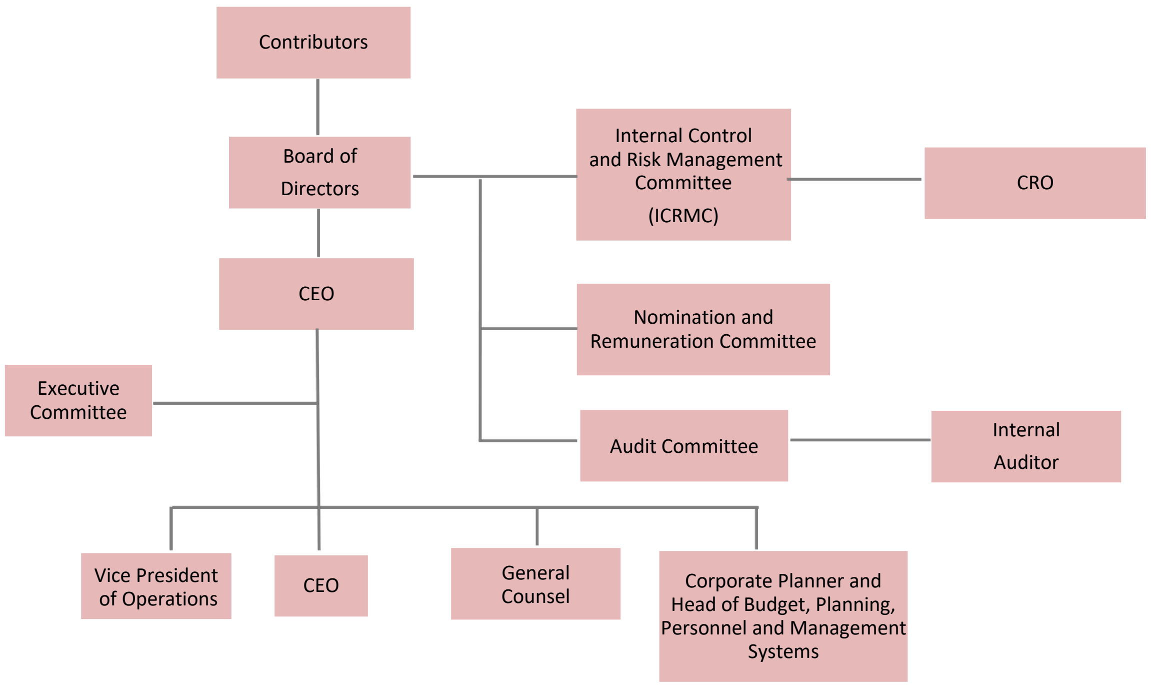
REGISTERED OFFICE
CREDIT GUARANTEE AND INVESTMENT FACILITY
Asian Development Bank Building
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
PHILIPPINES

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 recommendations from the board on the extent of operations that CGIF may undertake for the development of the bonds market, the use of leverage, 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 of 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 CRO. As the trustee of CGIF, ADB holds in trust and currently manages all of CGIF's funds.

Exhibit 7: Governance structure



Source: CGIF, MARC

CREDIT GUARANTEE AND INVESTMENT FACILITY
STATEMENT OF FINANCIAL POSITION

(USD'000)						Change (%)			
Financial Year Ending : December 31	**1H2017**	**2016**	**2015**	**2014**	**2013**	**2016**	**2015**	**2014**	**2013**
ASSETS:									
Cash	2,658	2,210	3,183	1,905	3,053	(30.6)	67.1	(37.6)	78.6
Time deposits	22,502	7,706	6,798	35,599	8,001	13.4	(80.9)	>100	(90.9)
Investments	710,857	718,014	711,474	677,257	701,373	0.9	5.1	(3.4)	12.9
Derivative assets	-	465	69	-	-	>100	n.m.	n.m.	n.m.
Accrued Revenue from investment	3,256	3,324	3,430	4,150	3,226	(3.1)	(17.3)	28.6	11.1
Guarantee fee receivables	35,122	38,565	25,533	20,732	1,183	51.0	23.2	>100	n.m.
Other Assets	1,397	1,718	1,082	843	1,137	58.8	28.4	(25.9)	14.5
TOTAL ASSETS	**775,792**	**772,002**	**751,569**	**740,486**	**717,973**	2.7	1.5	3.1	0.5
LIABILITIES & MEMBER'S EQUITY									
Guarantee Liability	38,150	41,804	27,841	22,499	1,765	50.2	23.7	>100	n.m.
Unearned interest income - guarantee	230	167	89	11	4				
Derivative liabilities	830	565	-	-	-	n.m.	n.m.	n.m.	n.m.
Payable to other fund	-	-		-	-			n.m.	(100.0)
Accrued expenses	467	1,245	382	777	272	>100	(50.8)	>100	>100
Other Liabilities	387	700	700	700	700	n.m.	n.m.	n.m.	0.6
TOTAL LIABILITIES	**40,064**	**44,481**	**29,012**	**23,987**	**2,741**	53.3	20.9	>100	>100
MEMBERS' EQUITY									
Capital stock	700,000	700,000	700,000	700,000	700,000	n.m.	n.m.	n.m.	n.m.
Unrealised gain/(loss) on sale of investment	(4,310)	(7,250)	(2,131)	(408)	1,873	<(100)	<(100)	<(100)	(41.8)
Reserve	34,771	24,689	16,907	13,359	10,641	46.0	26.6	25.5	62.9
Retained Earnings	5,267	10,082	7,781	3,548	2,718	29.6	>100	30.5	(33.9)
	735,728	**727,521**	**722,557**	**716,499**	**715,232**	0.7	0.8	0.2	0.2
TOTAL	**775,792**	**772,002**	**751,569**	**740,486**	**717,973**	2.7	1.5	3.1	0.5

n.m. : not meaningful

CREDIT GUARANTEE AND INVESTMENT FACILITY
STATEMENT OF COMPREHENSIVE INCOME

(USD'000) Financial Year Ending : December 31	1H2017	2016	2015	2014	2013	Change (%) 2016	2015	2014	2013
REVENUE :									
Gross income on guarantees	4,679	8,035	4,782	1,368	423	68.0	>100	>100	n.m.
Reinsurance expense	(1,103)	(540)	-	-	-	n.m.	n.m.	n.m.	
Net income on guarantees	3,576	7,495	4,782	1,368	423	56.7	>100	>100	
Income on investments	5,602	10,095	9,150	8,264	7,644	10.3	10.7	8.1	(4.5)
Net realised gains from investments	(2)	509	219	487	-	>100	(55.0)	n.m.	n.m.
Others	15	567	600	13	65	(5.5)	>100	(80.0)	>100
	9,191	**18,666**	**14,751**	**10,132**	**8,132**	26.5	45.6	24.6	1.5
EXPENSES:									
Administrative expenses	3,471	6,848	5,566	5,511	4,405	23.0	1.0	25.1	50.0
Financial expenses	28	54	50	56	49	8.0	(10.7)	14.3	32.4
Depreciation expenses	149	258	241	276	246	7.1	(12.7)	12.2	5.1
Other miscellaneous expenses	350	700	700	700	700	n.m.	n.m.	n.m.	0.6
	3,998	**7,860**	**6,557**	**6,543**	**5,400**	19.9	0.2	21.2	38.3
TOTAL OPERATING INCOME	**5,193**	**10,806**	**8,194**	**3,589**	**2,732**	31.9	>100	31.4	(33.4)
TRANSLATION (LOSS)/ GAIN	74	(724)	(413)	(41)	(14)	(75.3)	<(100)	<(100)	<(100)
NET INCOME	**5,267**	**10,082**	**7,781**	**3,548**	**2,718**	29.6	>100	30.5	(33.9)
OTHER COMPREHENSIVE INCOME									
Unrealised (Loss)/Gain on AFS Investments	2,940	(5,118)	(1,723)	(2,281)	(1,347)	<(100)	24.5	(69.3)	<(100)
TOTAL COMPREHENSIVE INCOME	**8,207**	**4,964**	**6,058**	**1,267**	**1,371**	(18.1)	>100	(7.6)	(83.6)

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.

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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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