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CD RMAT 1306976503 - 15516

CREDIT ANALYSIS

Counterparty Credit Rating
Multilateral Facility

MALAYSIAN RATING CORPORATION BERHAD
199501035601 (364803-V)

CREDIT GUARANTEE AND INVESTMENT FACILITY

Rating Review – 2019

Date	Rating Action	Current Rating	Outlook
December 2019	Affirmed	AAA/MARC-1	Stable

Rating History	Rating Action	Rating	Outlook
January 2019	Affirmed	AAA/MARC-1	Stable
January 2018	Affirmed	AAA/MARC-1	Stable
January 2017	Affirmed	AAA/MARC-1	Stable
January 2016	Affirmed	AAA/MARC-1	Stable

Rating Methodology Financial Guarantee Insurer Rating Approach

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Publication Date: December 17, 2019

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MALAYSIAN RATING CORPORATION BERHAD

CREDIT ANALYSIS

COUNTERPARTY CREDIT RATING/MULTILATERAL FACILITY
Rating Review - 2019

CREDIT GUARANTEE AND INVESTMENT FACILITY

Major Rating Factors

Strengths

- Conservative leverage and liquidity management policy;
- Strong credit underwriting policy;
- Sound governance structure; and
- Strong support from shareholders.

Challenge/Risk

- Guarantee portfolio exhibits limited diversification.

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 position which are underpinned by sound policy guidelines and governance structure established by the Asian Development Bank (ADB) and ASEAN+3 governments, which set up CGIF as a trust fund of ADB. The ASEAN+3 governments comprise the 10 ASEAN nations plus China, Japan and Korea. The stable ratings outlook reflects MARC's expectation that CGIF will continue to receive support from its shareholders in respect of capital resources and will abide by its conservative leverage and investment policies.

CGIF's guarantee portfolio comprises guarantees on issuances by 17 companies operating across Indonesia, Vietnam, Thailand, the Philippines, Singapore, Myanmar, Vietnam, South Korea and Malaysia. For the eight-month period of 2019 (8M2019), CGIF provided guarantees to three new issuers, more than offsetting the redemption from one issuer and leading to a 12.7% year-to-date growth in net guaranteed portfolio to US$917.7 million.

MARC notes that given its mandate to support the development of regional bond markets, CGIF will make further inroads into relatively undeveloped markets such as Laos, Cambodia and Myanmar. While this will provide new business opportunities and diversification for CGIF, it will increase the facility's credit risk profile given the lower sovereign ratings of these countries. Nevertheless, MARC takes comfort in CGIF's conservative approach in building its guarantee portfolio in line with growth in its capital base, which has enabled the facility to maintain a consistently healthy leverage position; as at end-August 2019, CGIF's net leverage ratio stood at 0.83:1, well within its internal limit of 2.50:1. The ratio is not likely to increase substantially in the near- to medium-term given additional capital contributions of another US$200 million from member countries until 2023.

These additional contributions follow shareholders' approval in 2017 to raise CGIF's capital to US$1.2 billion from US$700 million by 2023. Since then, shareholder capital payments to CGIF have been forthcoming, with total paid-in capital rising to US$1.0 billion as at end-June 2019. Of this, US$144.6 million was paid-in during 1H2019. The ongoing capital increase has also boosted CGIF's maximum guarantee capacity

(MGC) to US$2.7 billion as at end-June 2019, and eventually to US$3 billion in 2023 when the capital raising is completed.

CGIF's moderate guarantee portfolio size limits diversification of risks related to country, currency and issuance size. As at end-August 2019, the largest country and currency exposure, which was Vietnam and the Vietnamese dong, comprised 36% of the total net guaranteed amount. At the same time, the top five largest issuances, net of reinsurance, collectively accounted for around 37% of total equity. Nonetheless, as the guarantee facility continues to expand its portfolio over the years in line with its growing capital base, company concentration risk has improved; the top five largest issuances had accounted for 44% of equity in 2018 and 56% in 2017. Additionally, country and currency exposures remain well within the internally established limits of 20% and 40% of CGIF's MGC of US$2.7 billion.

In 1H2019, CGIF's net profit grew 56.7% y-o-y to US$12.4 million (1H2018: US$7.9 million), driven by strong growth in investment and guarantee income. Greater investment income largely came on the back of a larger investment base, as capital contributions of US$144.6 million during the period were allocated towards relatively high quality fixed-income securities and time deposits. Investment income grew 31.9% y-o-y to US$11.5 million in 1H2019 while yields on its investments were higher at an annualised 2.36% (1H2018: 1.96%). At the same time the increase in capital enabled CGIF to scale up its guarantee portfolio, resulting in a 42.5% y-o-y growth in guarantee income to US$7.1 million for 1H2019 (1H2018: US$4.5 million).

As CGIF funds its operations from retained earnings and paid-in capital, it maintains a sizeable holding of liquid assets to address operational obligations. Liquid assets accounted for 95.0% of total assets, underpinned by substantial investments in low-risk debt obligations issued by government and government-related entities, which comprised 79.1% of total investments as at end-June 2019. Additionally, CGIF's exposure to a large liquidity call arising from the default of any guaranteed obligation is somewhat mitigated by its ability to maintain the payment schedule of the obligations.

Exhibit 1: Financial highlights

FYE 31 December	1H2019^ (RM'000 equivalent)	1H2019^	2018	2017	2016	2015
Operating revenue (US$'000)	73,185	17,669	26,993	18,850	18,666	14,751
Net profit (US$'000)	51,531	12,441	16,857	10,658	10,082	7,781
Return on assets (%)	2.36*	2.36*	1.94	1.37	1.32	1.04
Return on equity (%)	2.48*	2.48*	2.04	1.45	1.39	1.08
Cost-to-income ratio (%)	30.8	30.8	35.1	43.5	42.1	44.5
Average investment yields (%)	2.36*	2.36*	2.07	1.60	1.46	1.30
Total assets (US$'000)	4,756,938	1,148,464	957,756	778,847	772,002	751,569
Liquid assets/Total assets (%)	95.0	95.0	95.2	95.0	94.3	96.0
Shareholders' funds (US$'000)	4,523,362	1,092,072	910,992	739,224	727,521	722,557
Net guarantee amount (US$'000)	3,801,060**	917,687**	814,267	698,657	649,448	583,787
Net leverage ratio[#]	0.83:1**	0.83:1**	0.89:1	0.95:1	0.91:1	0.81:1

Sources: CGIF, MARC
^ 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, total equity and foreign currency exchange rates as at August 31, 2019*
Note: Exchange rates based on BNM middle rates of USD/MYR = 4.142 as at June 28, 2019

BACKGROUND

CGIF was established in November 2010 by 10 members of the Association of Southeast Asian Nations (ASEAN) together with China, Japan and South Korea (ASEAN+3) and the ADB, a supranational bank that also acts as the trustee of CGIF. The largest shareholders of CGIF are Japan Bank for International Cooperation (JBIC) and China, both with a paid-up capital of 34.2%, followed by ADB with 13.0% and South Korea with 10.0%. 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. Areas of priority when providing guarantees include supporting first-time issuers, enabling existing issuers to extend maturities without elevated premiums, encouraging cross-border transactions, broadening investor bases, and introducing new instruments to bond markets in the region.

The guarantees issued by CGIF are irrevocable and unconditional commitments to pay bondholders upon non-payment by issuers throughout the tenure of the bonds. (Please refer to the Appendix for further details on CGIF's organisational governance.)

BUSINESS REVIEW

Guarantee portfolio continued to grow

For 8M2019, CGIF provided guarantees to three new issuers: Yoma Strategic Holdings Ltd, a Myanmar-based company involved in property development and construction services; Refrigeration Electrical Engineering Corporation, a diverse Vietnamese group mainly involved in real estate development and management, engineering services and power and water utility infrastructure; and CJ Logistics Asia Pte Ltd, a leading logistics company in South Korea. The total issuances over the period amounted to US$222.8 million, and represents the facility's foray into guaranteed issuances from Myanmar, Vietnam and South Korea-based companies.

These new guaranteed issuances more than offset the redemption of two issuances under PT Mitra Pinasthika Mustika Finance of over US$20 million in early 2019, and CGIF saw a YTD growth of 12.7% in its guarantee portfolio to US$917.7 million as at end-August 2019 (2018: US$814.3 million). The portfolio comprises issuers operating in Indonesia, Vietnam, Thailand, the Philippines, Singapore, Myanmar, Vietnam, Korea and Malaysia (please refer to Exhibit 2). CGIF has upgraded its internal rating on Protelindo Finance B.V., Mobile World Investment Corporation, Refrigeration Electrical Engineering Corporation and the PAN Group JSC due to an improvement in Indonesia and Vietnam's sovereign risk rating. At the same time, the internal risk rating on KNM Group Berhad weakened due to a deterioration in its financial performance. Two new deals in the pipeline involving guarantees to Vietnamese and Singaporean companies in 2019 could see the net guaranteed portfolio growing to approximately US$1,054 million by the end of the year.

Exhibit 2: Guarantee portfolio as at end-August 2019

Issuer	Issuers' base country	Issue date	Currency of issuance	Gross amount (US$ mil equivalent)
PT Professional Telekomunikasi Indonesia	Indonesia	Nov 2014	Singapore dollar	129.8
Masan Consumer Holdings	Vietnam	Dec 2014	Vietnamese dong	90.5
IVL Singapore Pte Ltd	Thailand	Oct 2015	Singapore dollar	140.6
Vingroup Joint Stock Company	Vietnam	Feb 2016	Vietnamese dong	129.3
AP Renewables, Inc	Philippines	Mar 2016	Philippine peso	89.9
Fullerton Heathcare Corporation Ltd	Singapore	Jul 2016	Singapore dollar	72.1
KNM Group Berhad	Malaysia	Nov 2016	Thai baht	90.7
ASA Philippines Foundation	Philippines	Feb 2017, Jun 2017, Jan 2018	Philippine peso	20.0
Mobile World Investment Corporation	Vietnam	Nov 2017	Vietnamese dong	48.9
Siamgas and Petrochemicals Public Company Ltd	Thailand	Feb 2018 Dec 2018	Thai baht	101.2
The Pan Group SJC	Vietnam	Sep 2018	Vietnamese dong	48.9
Hoan My Medical Corporation	Vietnam	Oct 2018	Vietnamese dong	100.4
Aeon Credit Service	Philippines	Nov 2018	Philippine peso	19.2
Boonthavorn Ceramic 2000 Co Ltd	Thailand	Dec 2018	Thai baht	32.6
Yoma Strategic Holdings	Myanmar	Jan 2019	Thai baht	72.5
Refrigeration Electrical Engineering Corporation	Vietnam	Jan 2019	Vietnamese dong	99.9
CJ Logistics Asia Pte Ltd	South Korea	Mar 2019	Singapore dollar	50.5
Total				**1,337.0**

Sources: CGIF, MARC
Note: Figures may not add up due to rounding

MARC notes that given its mandate to support the development of regional bond markets, CGIF plans to make further inroads into relatively undeveloped markets such as Laos, Cambodia and Myanmar. While this will provide new business opportunities and diversification for CGIF, it will increase the facility's credit risk profile given the lower sovereign ratings of these countries. Nevertheless, MARC takes comfort in CGIF's conservative approach in building its guarantee portfolio in line with the growth in its capital base, which has enabled the facility to consistently maintain a healthy leverage position.

Guarantee portfolio exhibits concentration risks

Exhibit 3: Guarantee portfolio composition by currency

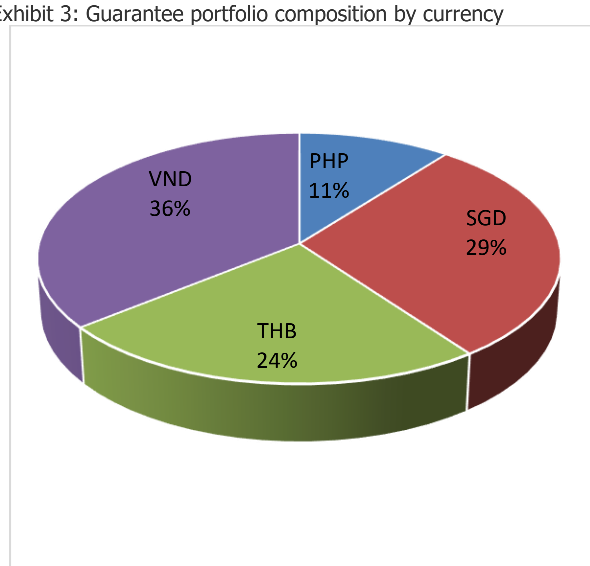
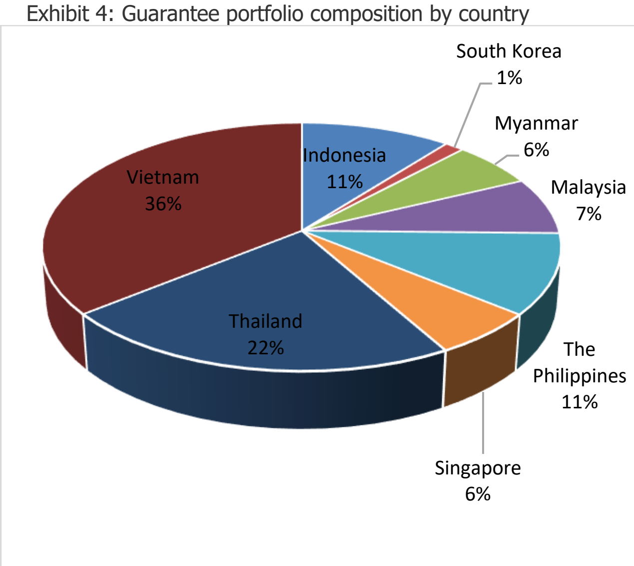


Exhibit 4: Guarantee portfolio composition by country



Sources: CGIF, MARC
Note: Foreign currency exchange rates are as at August 31, 2019

Given CGIF's moderate guarantee portfolio, it is exposed to concentration risk. As at end-August 2019, Vietnamese dong-denominated bonds which were all issued by Vietnam-based corporates comprised 36% of the total net guaranteed amount. At the same time, its top five largest issuances, net of reinsurance, collectively accounted for around 37% of total equity. Nonetheless, as the guarantee facility continues to expand its portfolio in line with its growing capital base, company concentration risk has improved over the years; the top five largest issuances accounted for 44% in 2018 and 56% in 2017.

Concentration risk also remains well within CGIF's established single exposure limits that are based on its MGC[1], which has increased to US$2.7 billion as at end-June 2019 following shareholders' response to a call to increase paid-in capital to US$1.2 billion from US$700 million between 2018 and 2023, which has resulted in equity rising to about US$1.1 billion (2018: US$911.0 million). This has led to an increase in the country and currency exposure limit to US$540 million or 20% and US$1.1 billion or 40% of MGC. In addition, the single borrower/group limit is 20% of CGIF's paid-in capital or US$201 million. CGIF's net leverage ratio of 0.83:1 is well below its internal limit of 2.50:1 and indicates ample room to continue growing its guarantee portfolio.

Currency risk has increased; hedging to be done on a case-by-case basis

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. It amended its foreign exchange hedging policy in November 2017 to hedge exposure to foreign exchange risk from guarantee fee receivables on a case-by-case basis, compared to the compulsory hedging for all foreign exchange guarantee fee receivables previously.

As a result of the policy change, CGIF currently has no hedged position over its foreign exchange exposure, compared to the nominal amount of foreign exchange forwards of US$14.5 million in 2017, despite a larger net guarantee exposure. Reduced hedging activities may introduce greater variability to CGIF's guarantee income in the event of potential currency fluctuations. Furthermore, recent global economic headwinds have led to a flight to safety to US dollars, weakening emerging market currencies. This is expected to moderate CGIF's profitability in the near term. Nevertheless, MARC notes that weaker emerging market currencies also translate into a smaller obligation in the event of default of a covered bond.

Reinsurance reduces guarantee obligations

Under an arrangement with a reinsurance consortium, 25% of CGIF's existing exposures and new guarantees written from January 2019 to December 2019 are ceded to the consortium that meets certain reinsurance criteria. 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. The international ratings of CGIF's current reinsurance partners range from AA- to A.

FINANCIAL PERFORMANCE

Higher profitability driven by investment income

Exhibit 5: Performance indicators

FYE 31 December	1H2019^	1H2018^	2018	2017	2016	2015
Gross guarantee income (US$'000)	7,088	4,542	9,823	9,117	8,035	4,782
Net guarantee income (US$'000)	4,892	3,432	7,285	6,919	7,158	4,664
Investment income (US$'000)	11,466	8,695	18,654	11,825	10,432	9,268
Net realised gains from disposal of investments (US$'000)	69	-	4	26	509	219
Net profit (US$'000)	12,441	7,938	16,857	10,844	10,082	7,781
Average investment yields (%)	2.36*	1.96*	2.07	1.60	1.46	1.30
Return on assets (%)	2.36*	1.86*	1.94	1.40	1.32	1.04
Return on equity (%)	2.48*	1.95*	2.04	1.48	1.39	1.08
Cost-to-income ratio (%)	30.8	32.8	35.1	43.5	42.1	44.5

^ 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
Sources: CGIF, MARC

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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*

CGIF recorded a 56.7% y-o-y growth in net profit to US$12.4 million during 1H2019, driven by strong growth in investment and guarantee income. Increased investment income largely came on the back of a larger investment base, as capital contributions of US$144.6 million during the period were allocated towards relatively high quality fixed-income securities and time deposits. The annualised investment yield rose to 2.36% in 1H2019 (1H2018: 1.96%) and further supported the growth in investment income. At the same time the increase in capital enabled CGIF to scale up its guarantee portfolio, resulting in a 42.5% y-o-y growth in guarantee income to US$7.1 million for 1H2019 (1H2018: US$4.5 million). Nevertheless, it should be noted that CGIF's income continues to remain reliant on investment income, which accounted for 65.2% of total income for 1H2019. Its guarantee fee is currently not sufficient in covering operating expenses due to the small size of the guarantee portfolio.

Investment portfolio quality remains sound

Exhibit 6: Allocation of funds

	Amount (US$ million)			Proportion (%)		
Type	**1H2019**	**2018**	**2017**	**1H2019**	**2018**	**2017**
Government and government-guaranteed obligations	861.2	741.7	639.4	79.1	82.0	87.2
Corporate obligations	91.1	103.6	59.4	8.4	11.5	8.1
Time deposits	136.0	59.3	34.6	12.5	6.6	4.7
Total	**1,088.2**	**904.6**	**733.4**	**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, the trustee of CGIF's investments. The facility's investment portfolio largely comprises government or corporate debt obligations in advanced economies, which has continued to support its strong liquidity profile. As at end-June 2019, a substantial 79.1% of the total investment funds were allocated to debt obligations issued by government and government-related entities. At the same time, time deposits in highly rated countries like Australia, Canada, Germany, the Netherlands and Singapore made up 12.5% of the portfolio. Corporate obligations largely refer to investments in financial institution debt in Sweden, Canada and Australia.

The average effective duration of CGIF's investment portfolio was higher at 2.8 years as at end-June 2019 (2018: 2.6 years), remaining well within its limit of 5.0 years as per policy guidelines. The recent cutting of interest rates in advanced economies may spur bond portfolio performance and as such improve CGIF's profitability metrics. Based on CGIF's interest rate sensitivity analysis, a 100 basis points decrease in interest rate will result in US$30.1 million of unrealised gains which is more than CGIF's annual net profit.

Sound capital position

Exhibit 7: Capital adequacy

FYE 31 December	1H2019^	2018	2017	2016	2015
Total assets (US$'000)	1,148,464	957,756	779,109	772,002	751,569
Total equity (US$'000)	1,092,072	910,992	739,224	727,521	722,557
Net guarantee amount (US$'000)	917,687*	814,267	698,657	649,448	583,787
Net leverage ratio	0.83:1*	0.89:1	0.95:1	0.91:1	0.82:1
Basel II capital adequacy ratio (%)	32.2	26.8	24.3	25.3	26.7

Sources: 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
^ Unaudited
** Based on net guarantee amount, total equity and foreign currency exchange rates as at August 31, 2019*

CGIF's capital position remains sound as reflected by its net leverage ratio of 0.83:1, well within CGIF's internal limit of 2.50:1. Since the Capital Increase Programme was approved in 2017, paid-in capital has steadily risen to US$1.0 billion as at end-June 2019 (2018: US$859 million; 2017: US$703 million), supporting the increase in capital adequacy ratio to 32.2% (2018: 26.8%; 2017: 24.3%). CGIF plans to increase its leverage ratio to 3.50:1 in 2020 to further grow its guarantee capacity, given its credit profile remains strong moving forward. MARC opines that the facility can moderately increase its leverage level without affecting its credit profile, as it gradually develops its guarantee portfolio and reduces single borrower exposure.

Sound liquidity profile

Exhibit 8: Proportion of liquid assets to total assets

FYE 31 December	1H2019^	2018	2017	2016	2015
Liquid assets (US$'000)	1,090,865	911,596	739,991	727,930	721,455
Total assets (US$'000)	1,148,464	957,756	778,847	772,002	751,569
Liquid assets/Total assets (%)	95.0	95.2	95.0	94.3	96.0

Source: CGIF

CGIF's liquidity profile remained sound, as reflected by its liquid assets-to-total assets of 95.0% as at end-June 2019. Its liquid assets mainly comprise 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

CGIF's management team is helmed by the new chief executive officer, Sun Guiying, who joined in June 2019. Sun brings with her longstanding experience in the developmental finance as well as credit guarantee lines, having previously held management roles in the Export-Import Bank of China and Chongqing Export-Import Credit Guarantee Company, among others. Having served as a member of CGIF's board of directors, Sun has been involved in CGIF since its formative years. MARC views positively on 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 internal control and risk management systems 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 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. In May 2018, sovereign caps were applied to CGIF's internal risk rating system as a refinement to conservatively account for other country risks besides transferability and convertibility, requiring the maximum eligible rating of potential guaranteed bond issuers from Cambodia, Laos or Myanmar to be adjusted to B. 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.

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 Deal Operations Department 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. Based on CGIF's risk management framework, credit loss reserves will be established based on default probabilities associated with CGIF's internal risk ratings.

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 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.

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 5.0 years. 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 June 30, 2019)

BOARD OF DIRECTORS
Feng Yuchuan (China)
Zhang Zhengwei (China)
Azah Hanim Ahmad (Malaysia)
Mitsutoshi Kajikawa (Japan)
Kenichi Aso (Japan)
Ja Young Gu (Korea)
Stefan Hruschka (ADB)
Sun Guiying (Chief Executive Officer)

CONTRIBUTORS

Japan Bank for International Cooperation	34.15%
People's Republic of China	34.15%
Asian Development Bank	12.95%
Republic of Korea	9.96%
ASEAN countries	8.79%

MANAGEMENT

Sun Guiying	Chief Executive Officer
Aarne Dimanlig	Chief Risk Officer
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

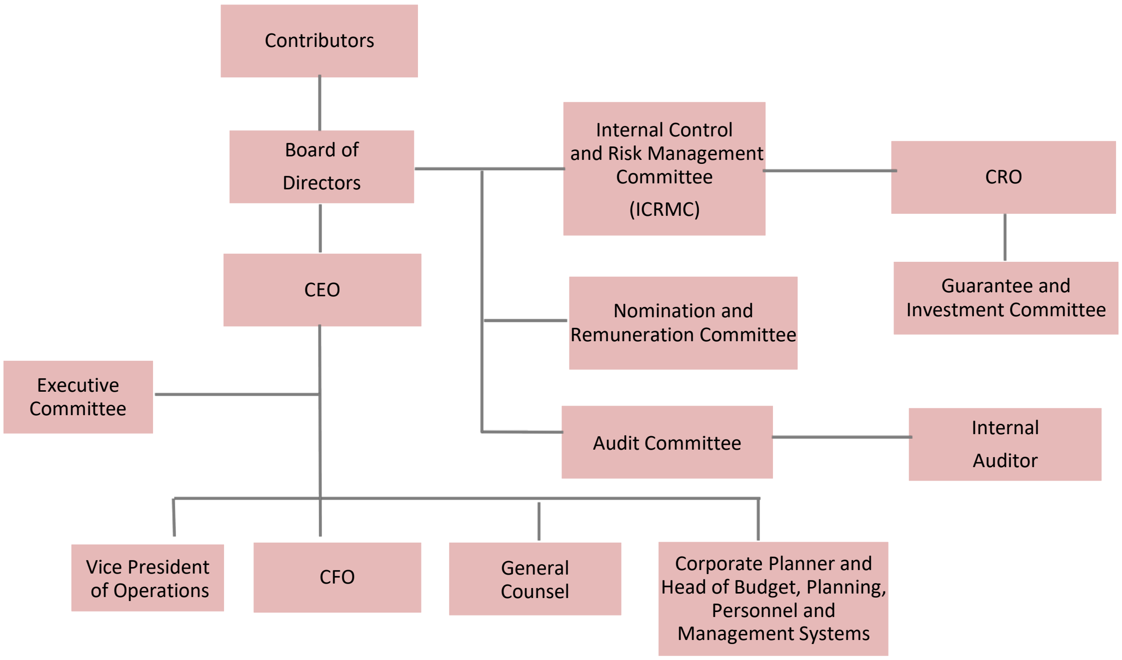
REGISTERED OFFICE
CREDIT GUARANTEE AND INVESTMENT FACILITY
Asian Development Bank Building
6 ADB Avenue,
Mandaluyong City
1550 Metro Manila
PHILIPPINES

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 bond 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 on the strategy, operations and management of CGIF. The board has established three committees, i.e. the audit committee, the internal control and risk management committee (ICRMC), 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 9: Governance structure



Sources: CGIF, MARC

CREDIT GUARANTEE AND INVESTMENT FACILITY
STATEMENT OF FINANCIAL POSITION

(USD'000)							Change (%)				
Financial Year Ending : December 31	**1H2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2018**	**2017**	**2016**	**2015**	**2014**
ASSETS:											
Cash	2,679	7,041	6,599	2,210	3,183	1,905	6.7	>100	(30.6)	67.1	(37.6)
Time deposits	135,956	59,293	34,580	7,706	6,798	35,599	71.5	>100	13.4	(80.9)	>100
Investments	952,230	845,262	698,812	718,014	711,474	677,257	21.0	(2.7)	0.9	5.1	(3.4)
Derivative assets	-	-	-	465	69	-	n.m.	(100.0)	>100	n.m.	n.m.
Accrued Revenue from investment	6,301	5,124	3,466	3,324	3,430	4,150	47.8	4.3	(3.1)	(17.3)	28.6
Guarantee fee receivables	49,802	39,944	34,526	38,565	25,533	20,732	15.7	(10.5)	51.0	23.2	>100
Other Assets	1,495	1,092	1,126	1,718	1,082	843	(3.0)	(34.5)	58.8	28.4	(25.9)
TOTAL ASSETS	**1,148,464**	**957,756**	**779,109**	**772,002**	**751,569**	**740,486**	22.9	0.9	2.7	1.5	3.1
LIABILITIES & MEMBER'S EQUITY											
Guarantee Liability	54,182	44,358	37,277	41,804	27,841	22,499	19.0	(10.8)	50.2	23.7	>100
Unearned interest income - guarantee	452	402	261	167	89	11					
Derivative liabilities	-	-	991	565	-	-	(100.0)	75.4	n.m.	n.m.	n.m.
Lease liabilities	244	-	-	-	-	-					
Payable to other fund	-	-	-	-		-	n.m.	n.m.			n.m.
Accrued expenses	1,065	1,165	657	1,245	382	777	77.3	(47.2)	>100	(50.8)	>100
Other Liabilities	448	839	700	700	700	700	19.9	n.m.	n.m.	n.m.	n.m.
TOTAL LIABILITIES	**56,391**	**46,764**	**39,885**	**44,481**	**29,012**	**23,987**	17.2	(10.3)	53.3	20.9	>100
MEMBERS' EQUITY											
Capital stock	1,003,800	859,200	703,000	700,000	700,000	700,000	22.2	0.4	n.m.	n.m.	n.m.
Unrealised gain/(loss) on sale of investment	13,498	(10,541)	(9,391)	(7,250)	(2,131)	(408)	(12.2)	(29.5)	<(100)	<(100)	<(100)
Reserve	62,333	45,615	34,771	24,689	16,907	13,359	31.2	40.8	46.0	26.6	25.5
Retained Earnings	12,441	16,718	10,844	10,082	7,781	3,548	54.2	7.6	29.6	>100	30.5
	1,092,072	**910,992**	**739,224**	**727,521**	**722,557**	**716,499**	23.2	1.6	0.7	0.8	0.2
TOTAL	**1,148,464**	**957,756**	**779,109**	**772,002**	**751,569**	**740,486**	22.9	0.9	2.7	1.5	3.1

n.m. : not meaningful

CREDIT GUARANTEE AND INVESTMENT FACILITY
STATEMENT OF COMPREHENSIVE INCOME

(USD'000) Financial Year Ending : December 31	1H2019	2018	2017	2016	2015	2014	Change (%) 2018	2017	2016	2015	2014
REVENUE :											
Gross income on guarantees	7,088	9,823	9,117	8,035	4,782	1,368	7.7	13.5	68.0	>100	>100
Reinsurance expense	(2,196)	(2,538)	(2,198)	(540)	-	-	(15.5)	<(100)	n.m.	n.m.	n.m.
Net income on guarantees	4,892	7,285	6,919	7,495	4,782	1,368	5.3	(7.7)	56.7	>100	>100
Income on investments	11,453	18,619	11,808	10,086	9,146	8,264	57.7	17.1	10.3	10.7	8.1
Net realised gains from investments	69	4	26	509	219	487	(84.6)	(94.9)	>100	(55.0)	n.m.
Others	1,255	1,085	97	576	604	13	>100	(83.2)	(4.6)	>100	(80.0)
	17,669	**26,993**	**18,850**	**18,666**	**14,751**	**10,132**	43.2	1.0	26.5	45.6	24.6
EXPENSES:											
Administrative expenses	4,766	8,340	7,144	6,848	5,566	5,511	16.7	4.3	23.0	1.0	25.1
Financial expenses	43	73	59	54	50	56	23.7	9.3	8.0	(10.7)	14.3
Depreciation expenses	183	229	289	258	241	276	(20.8)	12.0	7.1	(12.7)	12.2
Other miscellaneous expenses	447	839	700	700	700	700	19.9	n.m.	n.m.	n.m.	n.m.
	5,439	**9,481**	**8,192**	**7,860**	**6,557**	**6,543**	15.7	4.2	19.9	0.2	21.2
TOTAL OPERATING INCOME	**12,230**	**17,512**	**10,658**	**10,806**	**8,194**	**3,589**	64.3	(1.4)	31.9	>100	31.4
Provision for impairment losses	(52)	(42)	-	-	-	-	n.m.	n.m.	n.m.	n.m.	n.m.
TRANSLATION (LOSS)/ GAIN	263	(613)	186	(724)	(413)	(41)	<(100)	>100	(75.3)	<(100)	<(100)
NET INCOME	**12,441**	**16,857**	**10,844**	**10,082**	**7,781**	**3,548**	55.5	7.6	29.6	>100	30.5
OTHER COMPREHENSIVE INCOME											
Unrealised (Loss)/Gain on AFS Investments	24,040	(1,161)	(2,141)	(5,118)	(1,723)	(2,281)	45.8	58.2	<(100)	24.5	(69.3)
TOTAL COMPREHENSIVE INCOME	**36,481**	**15,696**	**8,703**	**4,964**	**6,058**	**1,267**	80.4	75.3	(18.1)	>100	(7.6)

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.

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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.
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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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