

Danajamin Nasional Berhad

UNDERWRITING POLICY

Abridged Version 1.0
Approved by the Board
25 June 2009

UNDERWRITING POLICY

Contents

SECTION A – INTRODUCTION	3
1 Objectives and Principles	3
SECTION B – UNDERWRITING CRITERIA	4
2 Investment Grade Issuer Rating.....	4
3 Adequacy of Cashflows to Repay Debt Obligations	4
4 Corporate Behavior and Governance	5
5 Risk Management	5
6 Security Arrangement	5

UNDERWRITING POLICY

SECTION A – INTRODUCTION

1 Objectives and Principles

- 1.1 The objective of the Underwriting Policy (“the Policy”) is to ensure that Danajamin Nasional Berhad (“Danajamin”) provides Financial Guarantee Insurance or Al-Kafalah guarantee to companies based on clear and consistent approval criteria following a robust credit evaluation process. This is to ensure that Danajamin is able to fulfill its key objective of facilitating capital market access for viable and deserving companies as well as to protect the capital provided by our shareholders.
- 1.2 Danajamin’s underwriting criteria comprises:-
- a) Investment grade issuer rating,
 - b) Adequacy of cashflows to repay debt obligations,
 - c) Good corporate behavior & governance,
 - d) Strong risk management, and
 - e) Acceptable security arrangement.
- 1.3 In developing this Policy, the Company is guided by the following principles:
- a) Danajamin is to establish its own internal credit evaluation standards,
 - b) Danajamin is to focus on the applicants’ corporate behavior and governance,
 - c) Companies supported by Danajamin’s financial guarantee insurance are to have strong internal risk management policies,
 - d) Danajamin will pursue acceptable security arrangements that commensurate with the profile of the companies insured and usual arrangements observed in the market,
 - e) Danajamin will implement a robust underwriting approval process that will filter out individual preferences, biasness and external influences, and
 - f) All underwriting staff must be able to communicate Danajamin’s criteria and approval process clearly to all applicants and subject themselves to the highest level of professional conduct at all times.

UNDERWRITING POLICY

SECTION B – UNDERWRITING CRITERIA

2 Investment Grade Issuer Rating

- 2.1 Applicants for Danajamin’s financial guarantee insurance are required to have an investment grade issuer rating. Investment grade ratings are defined as ratings of at least BBB and above.
- 2.2 However, Danajamin is not obliged to approve all applications from investment grade issuers. Danajamin will review the key factors highlighted by the rating agencies in arriving at the respective ratings accorded to the applicants.
- 2.3 Danajamin will review the credit ratings principally based on the rating standards adopted by the two recognised rating agencies in Malaysia. Where there are discrepancies and disparity of standards, Danajamin will adopt the more stringent or more conservative approach unless the more stringent approach is deemed to be overly conservative or impractical by the Board Underwriting Committee.
- 2.4 Danajamin’s internal credit evaluation will be based on a clear methodology to promote greater objectivity and clarity. The key areas of evaluation include:-
- a) Adequacy of cashflows to repay debt obligations,
 - b) Corporate behavior and governance,
 - c) Risk management practices, and
 - d) Security arrangements.
- 2.5 The internal credit methodology and standards will be determined by the Board Underwriting Committee. This methodology will be subject to periodic review if warranted.

3 Adequacy of Cashflows to Repay Debt Obligations

- 3.1 Danajamin will evaluate the projected cashflow statements of the applicant and assumptions used. It is important that the companies supported by Danajamin’s financial guarantee insurance be able to generate sufficient cashflows from identified sources to service their debt obligations.
- 3.2 The underwriting team shall evaluate the assumptions used and stress test areas of exposure to ensure that there are sufficient buffers available for the company to meet debt obligations even in times of stress.

UNDERWRITING POLICY

4 Corporate Behavior and Governance

- 4.1 Danajamin will evaluate the profiles of the shareholders and management of the applicants to review their past corporate behavior and governance. Principally, the shareholders and management must not possess a history of action or behavior which is detrimental to creditors and minority shareholders.
- 4.2 In addition, companies with well recognised independent directors known for their integrity will be preferred. This would be in priority to the sheer number of independent directors appointed. All applicants aspiring to procure Danajamin's financial guarantee insurance are expected to appoint independent directors to their boards.
- 4.3 The applicant's management team will also be evaluated based on their experience, track record and professionalism.

5 Risk Management

- 5.1 Danajamin's underwriting teams will review the applicant's key business risk factors and hold discussions with the management to review their respective risk management policies and procedures.
- 5.2 Sufficient measures to contain risks to the company's cashflow streams and financial resources are expected to be taken such as via capping or hedging of exposures and appropriate insurance policies.
- 5.3 For companies that are compelled to have open positions, stress assumptions for their exposures in the cashflow projections will be made when evaluating their anticipated financial profile.
- 5.4 Danajamin will promote strong governance via the imposition of covenants in the facility agreements. These include the right to send auditors into the company and other preventive measures before further deterioration of its credit profile.

6 Security Arrangement

- 6.1 Danajamin's requirement for security will be based on the existing or customary arrangements in the market.
- 6.2 The security arrangement to be pursued may comprise (if applicable and practical for each underwriting opportunity on a case to case basis):-
 - a) 1st Legal Charge over Assets

UNDERWRITING POLICY

- b) Debenture over Fixed and Floating Charges
 - c) Parent Corporate Guarantees
 - d) Shareholders' or Directors' Indemnity
- 6.3 Although the security arrangement will not help Danajamin avoid a claim event, it would enable Danajamin to enhance its recovery prospects in the unlikely event it occurs.
- 6.4 For greater clarity, Danajamin will avoid underwriting issues purely based on collateralisation without structuring out the risk of co-mingling of assets and cross-default. Attractive assets will need to be separated in a Special Purpose Vehicle, with clear cashflow streams to redeem the bonds issued as well as sufficient provisions for Danajamin to dispose of the collateral with adequate disposal periods prior to the legal maturity of the bonds.
- 6.5 In instances where collaterals are offered as part of the security arrangement for Danajamin's consideration, these assets must be valued by an Independent Professional Valuer ("Valuer") approved by Danajamin. The approved Valuer shall be selected from a panel of firms.
- 6.6 Additionally, Danajamin shall review the valuation methods applied and derive comfort on the value ascribed to the assets by the Valuer.