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**Research Update:**

## Credit Guarantee and Investment Facility 'AA/A-1+' Ratings Affirmed; Outlook Stable

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## Research Update:

# Credit Guarantee and Investment Facility 'AA/A-1+' Ratings Affirmed; Outlook Stable

## Overview

- CGIF executed a record eight guarantees in 2016, underlining its role as a catalyst in developing local-currency bond markets in Southeast Asia. However, CGIF lacks an established track record and faces some concentration risk due to its small size.
- In our view, CGIF has an extremely strong financial profile underpinned by capital injections expected in 2017-2019, and an adequate business profile.
- We are affirming our 'AA/A-1+' foreign-currency issuer rating and 'axAAA' ASEAN regional scale rating on CGIF.
- The outlook is stable, reflecting our expectation that CGIF will maintain a solid balance sheet and prudent risk-management practices as it pursues new business growth over the next 24 months.

## Rating Action

On June 23, 2017, S&P Global Ratings affirmed its 'AA' long-term and 'A-1+' short-term issuer credit ratings on Credit Guarantee and Investment Facility (CGIF). The outlook is stable.

At the same time, we affirmed our 'axAAA' long-term ASEAN regional scale credit rating on CGIF.

## Rationale

The issuer credit ratings on CGIF reflect our assessment of the facility's business profile as adequate and its financial profile as extremely strong, resulting in a stand-alone credit profile (SACP) of 'aa'. The ratings do not benefit from extraordinary support because CGIF does not have callable capital.

CGIF is a supranational institution established in November 2010, with a mandate to help deepen and develop liquid local-currency bond markets among members of the Association of Southeast Asian Nations (ASEAN). CGIF provides guarantees on bonds issued by corporates in the ASEAN region. As of May 2017, CGIF had issued 16 guarantees in Singapore, Philippines, Thailand, Indonesia, and Vietnam.

Our assessment of CGIF's business profile rests on our view of the facility's role, mandate, and governance, and the strength of its relationship with its

contributors. CGIF was established as a trust fund of the Asian Development Bank (AsDB). We believe that CGIF's creditworthiness benefits from its relationship with its contributors and the mandate they have entrusted it with. The voting rights are dominated by four contributors: China (28.6%), Japan (28.6%), Korea (14.3%), and the AsDB (18.6%). The 10 ASEAN governments collectively hold the remaining voting rights (10%). The contributors' commitment to CGIF is limited to their paid-in capital contribution.

CGIF's shareholders are supportive of a proposed increase in the facility's paid-in capital. The agreement is likely to be formalized by the end of 2017, and completed by the end of 2019. The higher subscription is on a voluntary basis, and proposed to be a proportional increase across all current shareholders. By increasing its capital, CGIF's guarantee capacity will be boosted.

CGIF has a relatively short track record of fulfilling its policy mandate compared with other supranational institutions. While CGIF increased its operations in 2016, completing eight guarantees compared with one the previous year, we believe that for deepening of the ASEAN bond markets by credit enhancement will remain limited. As such, so will the role of the institution. CGIF acts as a catalyst for bond deals, rather than deepening the capital markets through volume. The extent of the facility benefitting from preferred creditor treatment is not established due to its short track record. However, being incorporated as a multilateral institution exempts it from transfer and convertibility restrictions on sovereigns.

CGIF's management team has the necessary expertise and experience to conduct its business and achieve its mandate. Its guarantee operations are controlled by conservative risk parameters in accordance with governance standards laid out in its articles of agreement. CGIF has expanded at a gradual pace, allowing its staffing capacity to catch up with the scale of operations. Treasury portfolio management is delegated to the AsDB, which results in conservative investment policies.

We continue to assess CGIF's financial profile as extremely strong. The facility's risk-adjusted capital (RAC) ratio was 37% before adjustments at year-end 2016. After adjustments specific to multilateral institutions, CGIF's RAC ratio falls to 20%, resulting in a capital adequacy assessment of very strong. The main adjustment is its single-name exposure to the portfolio of guarantees for regional corporates, inherent to its start-up nature. The ratio after adjustments has dropped from above 30% the previous year, as a result of the increase in guarantee operations without commensurate higher capital. We expect the impending capital increase over the next three years to propel CGIF's RAC ratio after adjustments to comfortably above 25%.

In an aim to boost its guarantee capacity and manage credit risks, CGIF entered into a reinsurance arrangement with a syndicate of reinsurers rated between 'AA-' and 'A'. This arrangement covers 25% of the existing guarantee portfolio and all new guarantees written until the end of 2017. Current country and currency exposure has been alleviated by approximately 15% as a

result of the transfer of exposure to the reinsurers. Coupled with the capital increase, these two measures will enhance CGIF's guarantee capacity. Even using a conservative calculation in capturing the reinsurance protection in our RAC ratio, we still assess the financial profile of CGIF as extremely strong.

Unlike supranational institutions that mainly lend directly to governments, CGIF may not benefit from preferred creditor treatment, in our view. Private-sector companies cannot expect multilateral institutions to be a lender (or guarantor) of last resort. Hence, we envisage potential future losses on the guaranteed bonds to be commensurate with market trends. That said, CGIF has made small yearly profits since inception, and we expect the facility to remain profitable.

Our assessment of CGIF's funding and liquidity also reflects its extremely strong financial profile. CGIF does not borrow; it obtains funding for its activities solely through retained earnings and contributors' equity. While we believe supranational backing provides one of the most stable sources of funding, this model also represents a concentration risk that could be tested in severe stress. Nonetheless, CGIF's liquidity position is robust. Our liquidity ratios indicate that CGIF would be able to comfortably pay out its guarantees for at least a year under stressed market conditions, without recourse to liquidity facilities from contributors or from the market. The facility's liquid assets, managed by the AsDB, are invested mostly in bonds of highly rated governments or government-related entities. They formed the bulk of CGIF's balance-sheet assets at year-end 2016.

## **Outlook**

The outlook is stable, reflecting our expectation that CGIF will maintain a solid balance sheet and prudent risk-management practices as it pursues new business growth over the next 24 months. We believe any changes to the rating will be driven by CGIF's capital adequacy assessment and the effectiveness of its role in the local-currency ASEAN bond markets.

### **Downside scenario**

We may lower the rating if CGIF struggles to execute its mandate at a profit or its financial metrics weaken more than we expect. This could happen if the facility aggressively expands its guarantee portfolio beyond the natural growth capacity provided with the expected increase of capital.

### **Upside scenario**

Upward pressure on the rating is in our view remote but could emerge if CGIF builds a track record and an ability to significantly contribute to a vibrant local currency regional capital market.

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Criteria - Governments - General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Research Update: Asian Development Bank 'AAA/A-1+' Ratings Affirmed, Outlook Stable, June 23 2017.

## Ratings List

Ratings Affirmed

Credit Guarantee and Investment Facility  
Sovereign Credit Rating

Foreign Currency	AA/Stable/A-1+
ASEAN Regional Scale	axAAA/--/--

Kolao Holdings Ltd.

Senior Unsecured	AA
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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