RATIONALE

TRIS Rating affirms the issuer rating on Credit Guarantee and Investment Facility (CGIF), a trust fund of Asian Development Bank (ADB), at “AAA”, with a “stable” outlook. The rating reflects CGIF’s status as a supranational institution owned by the governments of the ASEAN+3 countries and ADB, together referred to as “contributors”. The rating also reflects CGIF’s solid capital, conservative risk management framework, and strong liquidity. The rating takes into consideration the challenges CGIF is facing in fulfilling its mission from potentially rising exposure to countries with higher credit risks.

KEY RATING CONSIDERATIONS

Supranational status underpins rating

The rating on CGIF reflects its status as a supranational institution. We believe there is a high likelihood that CGIF will receive financial support from its major contributors in times of financial distress. We also factor in the strategically important objectives of the contributors that CGIF also serves by promoting development of the regional bond markets.

Additional capital injections from contributors indicate their ability and willingness to provide financial support and their commitment to CGIF’s development objectives. Since the second half of 2019, CGIF received a USD50 million capital injection from ADB, USD23.8 million from Republic of Korea, and USD0.8 million from Vietnam. This follows CGIF’s contributors’ approval in 2017 of a capital increase proposal (CIP) to raise CGIF’s paid-up capital on an uncommitted basis to USD1.2 billion by 2023 from USD700 million to support business expansion. CGIF’s paid-up capital was USD1.1 billion as of 20 August 2020.

S&P Global Ratings assigned the ratings to the top four contributors, which contributed around 90% of CGIF’s capital, in the range of “A+” to “AAA” as of 30 September 2020. These include Japan, People’s Republic of China, ADB, and Republic of Korea.

Solid capital buffer

We expect CGIF’s capital buffer to remain sufficient to absorb potential credit losses under a stress scenario. Our forecast incorporates the heightened risk of guarantee defaults to simulate the economic impacts from the Coronavirus Disease 2019 (COVID-19) pandemic. We also take into account its guarantee exposure, net of reinsurance, at a conservative 1.46 times of total capital as of June 2020. The figure rose from 1.14 times as of June 2019. In our opinion, it remains unlikely over the next few years that the figure will reach CGIF’s internal limit of 2.5 times.

CGIF’s Basel-II capital adequacy ratio, net of reinsurance, was 28.2% as of June 2020. Although the figure declined from 32.2% as of June 2019, primarily from growth in guarantee exposure, it remained well above its internal floor of 8.8%.

Conservative risk management contains guarantee risk

In our opinion, conservative risk management should help CGIF withstand heightened asset quality risks caused by the COVID-19. CGIF’s risk-based pricing should help provide adequate cushion against potential claims. Credit risk
assessments, the governance framework, and audit policies adhere to international standards with well-defined risk parameters. Reinsurance and counter-guarantees further help mitigate CGIF’s exposure to credit risks. Since its inception up to June 2020, CGIF’s guarantee portfolio has no record of default.

CGIF recently enhanced its risk management by formally introducing credit-monitoring, early-problem recognition, and more hands-on approaches towards vulnerable guaranteed accounts. Recent additions to its risk management framework include refined underwriting criteria and an outlined structured approach in an event of claims and loss recoveries.

We also consider the management’s shift in focus to business sectors less adversely affected by the COVID-19 as a positive move. These include sectors that benefit from e-commerce, healthcare services, and defensive or less-cyclical sectors. That said, the positive impacts from the shift in focus may be limited in the near term due to the lead time required to underwrite new guarantees in the pipeline. Nonetheless, a strategy already in place to diversify CGIF’s country exposure should continue to help mitigate potential risks over a medium term. CGIF aims to reach a broader base of issuers outside Vietnam and Thailand, whose combined exposure already constituted half of the total exposure as of June 2020.

**Good quality investment portfolio**

We expect CGIF to maintain the good asset quality of its investment portfolio, thanks to its conservative investment strategy. The investments comprise debt securities with high credit ratings ranging from “A+” to “AAA” (based on S&P Global Ratings’ ratings). These largely comprise debts issued by government-related entities (GRE) and financial institutions, and US Treasuries. The minimum “A+” rating only applies to debts issued by GREs of contributing countries. As of June 2020, over half of the fixed-income investments had credit ratings of “AAA”. Its investment strategy aims for stable investment income, by a buy-and-hold strategy with a target effective duration of two to four years. The average effective duration of its investments was 3.13 years as of June 2020, extending from 2.61 years at the end of 2018, which is appropriate in a declining interest rate environment. Furthermore, there are conservative limits to contain value-at-risk (VaR) and unrealised market loss.

We expect income from investments to remain a meaningful earnings contributor to CGIF in the medium term, alongside continuous growth in revenues on guarantees. In the first half of 2020, interest income made up around 58% of gross revenue, followed by guarantee fees of 35%.

**Liquidity remains strong**

We expect sizable liquid assets and conservative liquidity risk management to support CGIF’s strong liquidity profile. The two-tier approach requires regular monitoring of liquidity to meet day-to-day requirements and a stress test in an event of major claims. CGIF can engage in repurchase transactions to manage its day-to-day liquidity needs. The approach relies on conservative test assumptions. For instance, liquidity gap monitoring requires expected cash inflows from investments and guarantee fees to cover cash outflows from operating expenses and potential claim payments over the next six months. Another good example is the stress scenario, which assumes defaults of the top 20% of guaranteed entities, with hair-cut assumptions when liquidating investments.

CGIF’s investment portfolios comprise high-grade marketable fixed-income securities, which we believe can be readily liquidated with minimal loss to support funding needs.

**BASE-CASE ASSUMPTIONS (2020-2022)**

- Net leverage ratio to be 1.4 to 1.6 times.
- New guarantees to be around USD400 million per annum.
- Investment yields to be around 2.2% to 2.3% per annum.

**RATING OUTLOOK**

The “stable” outlook reflects TRIS Rating’s view on the ability and willingness of the major contributors to support CGIF and our expectation that CGIF will continue to serve strategic roles in developing regional bond markets. The outlook also reflects our expectation that CGIF will maintain a strong credit profile, a prudent risk management framework, and healthy financial performance.

---

2 Based on unaudited financial statements
The rating could face downward pressure if losses in the guarantee portfolio cause CGIF’s financial profile to deteriorate significantly, or if there is evidence of weakening supports from the contributors.

COMPANY OVERVIEW

CGIF was founded in November 2010 by the governments of the ASEAN+3 countries (10 ASEAN countries plus China, Japan, and Korea) and ADB, together referred to as “contributors”. CGIF’s main objective is to provide credit guarantees which allow eligible issuers to access local currency bond markets. Issuers can thus avoid currency and maturity mismatches by issuing bonds within the region. The establishment of CGIF was a continual development process following the Asian Bond Markets Initiative (ABMI) introduced in 2003 by the ASEAN+3 countries. The aims of ABMI are to develop and strengthen the local currencies and regional bond markets to promote economic growth and financial development, and to prevent disruptions to the international financial order so as to enable savings in the region to be used within the region.

CGIF has four business functions:

1. Guaranteeing bonds in local currencies, issued by entities with local-scale and investment-grade ratings, to help issuers reduce currency and maturity mismatches;
2. Guaranteeing bonds not in local currencies, issued by entities with local-scale and investment-grade ratings, given that issuers have natural or financial hedges in place, such as a currency matching their underlying business;
3. Making investments for the development of the regional bond markets; and
4. Undertaking other activities and services consistent with the objectives.

Since its inception, CGIF has focused mainly on the first two functions. The latter two functions are for the future.

In a typical guarantee contract, CGIF’s insurance services will provide coverage only when an issuer breaches the non-payment event clause. In addition, when a non-payment event occurs, CGIF retains the sole right to decide whether it will early redeem the bonds or continue to pay bondholders according to the original bond schedule. Upon payment by CGIF of all or any part of the guaranteed amounts, CGIF will be entitled to all the rights, powers, and security that bondholders had against the issuers and co-indemnity providers to an amount equal to the paid guaranteed amount.

CGIF finances its operations solely from capital contributions. CGIF is not allowed to borrow from any source, except for cash management purposes.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>14.5</td>
<td>26.2</td>
<td>19.7</td>
<td>12.5</td>
<td>10.4</td>
</tr>
<tr>
<td>Guarantee income</td>
<td>8.6</td>
<td>12.9</td>
<td>8.7</td>
<td>8.4</td>
<td>7.7</td>
</tr>
<tr>
<td>Other revenue**</td>
<td>1.8</td>
<td>2.8</td>
<td>1.1</td>
<td>0.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Total revenue</td>
<td>24.9</td>
<td>41.9</td>
<td>29.5</td>
<td>21.0</td>
<td>19.2</td>
</tr>
<tr>
<td>Net income from operations</td>
<td>16.5</td>
<td>22.6</td>
<td>17.5</td>
<td>10.7</td>
<td>10.8</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,313.2</td>
<td>1,255.1</td>
<td>957.8</td>
<td>779.1</td>
<td>772.0</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>77.5</td>
<td>76.6</td>
<td>46.8</td>
<td>39.9</td>
<td>44.5</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>1,235.7</td>
<td>1,178.4</td>
<td>911.0</td>
<td>739.2</td>
<td>727.5</td>
</tr>
</tbody>
</table>

* Unaudited and not annualised
** Including realised gain (loss) from securities, fair value changes from derivatives, commission from reinsurance and miscellaneous income

RELATED CRITERIA

- Rating Methodology for Supranational Institutions, 24 July 2014
### Credit Guarantee Investment Facility (CGIF)

<table>
<thead>
<tr>
<th>Issuer Rating:</th>
<th>AAA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating Outlook:</td>
<td>Stable</td>
</tr>
</tbody>
</table>

**TRIS Rating Co., Ltd.**
Silm Complex Building, 24th Silom Road, Bangkok 10500, Thailand  Tel: 0-2098-3000

© Copyright 2020, TRIS Rating Co., Ltd.  All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient’s particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria