

# RatingsDirect®

---

## Research Update:

# Credit Guarantee And Investment Facility Long-Term Rating Lowered To 'AA'; Outlook Stable

### Primary Credit Analyst:

Takahira Ogawa, Singapore (65) 6239-6342; takahira.ogawa@standardandpoors.com

### Secondary Contact:

Terry Sham, CFA, FRM, Hong Kong (852) 2533-3590; terry.sham@standardandpoors.com

## Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

## Research Update:

# Credit Guarantee And Investment Facility Long-Term Rating Lowered To 'AA'; Outlook Stable

## Overview

- We have reassessed CGIF's ability to execute its mandate and revised our projections on the fund's credit metrics.
- We are lowering our long-term foreign currency issuer credit rating on CGIF to 'AA' from 'AA+'. We are also affirming our 'A-1+' short-term foreign currency issuer credit rating and the 'axAAA' long-term ASEAN regional scale credit rating on the trust fund of the AsDB.
- The stable outlook reflects our view that the risks to the rating on CGIF are balanced over the next 24 months.

## Rating Action

On June 18, 2014, Standard & Poor's Ratings Services lowered its long-term foreign currency issuer credit rating on the Credit Guarantee and Investment Facility (CGIF) to 'AA' from 'AA+'. The outlook is stable. At the same time, we affirmed our 'A-1+' short-term foreign currency issuer credit rating and the 'axAAA' long-term ASEAN regional scale credit rating on the trust fund of the Asian Development Bank (AsDB), a stakeholder in CGIF.

## Rationale

We lowered the rating following our reassessment of CGIF's capital adequacy and market position.

CGIF's mandate is to develop deep and liquid local currency and regional bond markets by issuing guarantees. As of December 2013, a little over three years since the fund's inception, it had issued two guarantees: for Noble Group Ltd. (a 3.55% Thai baht 2.85 billion bond due 2016) and for PT BCA Finance (a 8.20% Indonesian rupiah 300 billion note due 2016). Although CGIF has more transactions in the pipeline, we believe that the deepening of the Association of Southeast Asian Nations (ASEAN) bond markets by credit enhancement will be more limited than CGIF originally envisioned. As a result, we believe CGIF will seek to expand its business by guaranteeing weaker credits than we had originally assumed and increasing exposure to stronger credits. These trends will raise the fund's future embedded credit and concentration risks.

We believe that CGIF's creditworthiness benefits from its relationship with its shareholders and the mandate they have entrusted it with. CGIF is a

mono-line bond insurer owned by the AsDB (18.6%), China (28.6%), Japan (28.6%), Korea (14.3%), and the 10 ASEAN governments (collectively 10%). However, we note that the shareholders' commitment to CGIF is limited to their capital contribution, which is US\$700 million in total.

We expect CGIF's strong liquidity and capitalization relative to the size of its guaranteed assets to slowly decline over the next two years. As a start-up operation, CGIF is liquid and well capitalized as of Dec. 31, 2013, in our opinion. The AsDB manages CGIF's capital, which is invested mostly in bonds of highly rated governments or government-related entities. CGIF manages concentration risk through a set of prudential limits, which, however, leave room for single-name concentration inherent to the start-up nature of the portfolio. Unlike supranational institutions lending directly to governments, CGIF may not benefit from preferred creditor treatment. We expect potential future losses on the guaranteed bonds to be commensurate with market trends.

## Outlook

The stable outlook reflects our view that the risks to the rating on CGIF are balanced over the next 24 months. Any changes to the rating will likely be determined by our projections on the fund's capital adequacy and the effectiveness of its role in local currency regional capital markets.

Upward pressure on the rating could emerge if CGIF raises additional capital, demonstrates an ability to employ it efficiently, and contributes to a vibrant local currency regional capital market.

We could lower the rating if: (1) CGIF struggles to execute its mandate at a profit; or (2) CGIF's financial metrics weaken more than we expect, which could be due to the fund accumulating a guarantee portfolio with lower credits.

## Related Criteria And Research

### Related Criteria

- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

### Related Research

- Research Update: Asian Development Bank 'AAA/A-1+' Ratings Affirmed, Outlook Stable, June 3, 2014

## Ratings List

Downgraded

To

From

*Research Update: Credit Guarantee And Investment Facility Long-Term Rating Lowered To 'AA'; Outlook Stable*

Credit Guarantee and Investment Facility

Issuer Credit Rating

Foreign Currency

AA/Stable/A-1+

AA+/Stable/A-1+

Ratings Affirmed

Credit Guarantee and Investment Facility

ASEAN Regional Scale

axAAA/--/--

**Additional Contact:**

Elie Heriard Dubreuil, London (44) 207-176-7302; [elie.heriard.dubreuil@standardandpoors.com](mailto:elie.heriard.dubreuil@standardandpoors.com)

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 Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).