

Research Update

Research Update:

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

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Overview

- The ratings on CGIF reflect CGIF's mandate from ASEAN+3 countries to help develop local bond markets, the entity's conservative guarantee and investment strategies, and operational support during the start-up phase from its 18.6% owner AsDB.
- CGIF lacks an established track record and faces concentration risk.
- We are affirming our 'AA+/A-1+' foreign currency and 'axAAA' ASEAN regional scale ratings on CGIF.
- The stable outlook reflects our expectation that CGIF will develop its business cautiously, with guidance from the AsDB, and that the entity will adhere to prudent capital and liquidity guidelines.

Rating Action

On June 5, Standard & Poor's Ratings Services affirmed its 'AA+' long-term and 'A-1+' short-term foreign currency ratings on Credit Guarantee and Investment Facility (CGIF). The outlook on the long-term rating is stable. We also affirmed our 'axAAA' long-term ASEAN regional scale rating on CGIF, which is a trust fund of Asian Development Bank (AsDB), which also has a 18.6% shareholding in CGIF.

Rationale

The ratings on CGIF are supported by the entity's 100% capital coverage of its insurance obligations, its mandate to help develop local and regional currency debt markets in the ASEAN region, and its close ties with AsDB. CGIF will provide guarantees for bonds issued by entities domiciled in the 10 countries that are members of the Association of Southeast Asian Nations (ASEAN) and China, Japan, and Korea, where the bonds are mainly denominated in ASEAN currencies. According to CGIF's strategy, if the entity decides to extend guarantees exceeding its capital base, it will re-insure all such guarantees with insurers rated at least 'AA'.

CGIF's main functions as the guarantor of ASEAN currency bonds are: (1) to manage currency mismatches between the financing currency and the currency which the obligor uses in most of its operations; and (2) to facilitate longer-term bond issuance. CGIF also helps facilitate bond market access for companies and projects seeking to enter regional financial markets outside

their home countries.

CGIF's lack of a track record and concentration risk constrain the ratings. There is no clear emergency support mechanism for CGIF because the articles of agreement limit shareholders' obligation to their participating capital. However, the risk on management of capital is relatively limited because CGIF invests in liquid assets rated 'AA-' or 'A-1' or higher for long- and short-term debts, respectively. While CGIF has concentration risk to the 10 countries in ASEAN as well as China, Japan, and Korea (ASEAN+3 countries), given its relatively small operations, the risk is likely to diminish as the entity expands.

Except for AsDB, CGIF's other shareholders are sovereign governments or government-related entities of the countries in which CGIF operates. CGIF aims to promote economic development and capital market resilience by helping to develop deep and liquid ASEAN currency bond markets.

Outlook

The stable outlook reflects our expectation that CGIF will develop its business cautiously, with guidance from AsDB and influence from conservative government shareholders. We also expect the trust to adhere to prudent capital and liquidity guidelines.

We could raise the ratings if CGIF maintains conservative operations, keeps its risk exposures low, and develops a favorable track record over the medium- to long-term. We could lower the ratings if a significantly more aggressive business strategy, weak asset quality, low profitability, or other developments such as increasing currency risks weigh on CGIF's financial performance or weaken its mandate.

Related Criteria And Research

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

Credit Guarantee and Investment Facility

Issuer Credit Rating

Foreign Currency

AA+/Stable/A-1+

ASEAN Regional Scale

axAAA/--/--

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at

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