

RatingsDirect®

Credit Guarantee and Investment Facility

Primary Credit Analyst:

YeeFarn Phua, Singapore (65) 6239-6341; yeefarn.phua@spglobal.com

Secondary Contact:

Rebecca Hrvatin, Melbourne +61 3 9631 2244; rebecca.hrvatin@spglobal.com

Table Of Contents

Rationale

Outlook

Stand-Alone Credit Profile: 'aa'

Business Profile: Adequate

Financial Profile: Extremely Strong

Likelihood Of Extraordinary Shareholder Support

Related Criteria And Research

Credit Guarantee and Investment Facility

Rationale

The issuer credit ratings on the Credit Guarantee and Investment Facility (CGIF) reflect our assessment of the facility's business profile as adequate and its financial profile as extremely strong. We therefore assess the stand-alone credit profile as 'aa'. The ratings do not benefit from extraordinary support as CGIF

Issuer Credit Rating

Foreign Currency

AA/Stable/A-1+

ASEAN Regional Scale

axAAA/--/--

does not have callable capital.

CGIF is a supranational institution with a mandate to develop deep and liquid local currency bond markets among the members of the Association of Southeast Asian Nations (ASEAN). It achieves this by providing guarantees on bonds issued by companies in the ASEAN region. As of December 2015, five years since the facility's inception, the institution had issued eight guarantees in the markets of Singapore, Thailand, Indonesia, and Vietnam.

Our assessment of CGIF's business profile as adequate rests on our view of its role, mandate, 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 have the last 10%. The contributors' commitment to CGIF is limited to their capital contribution.

The facility has a relatively short track record of fulfilling its policy mandate. Although CGIF has more transactions in the pipeline, we believe that the deepening of the ASEAN bond markets by credit enhancement, and therefore the role of the institution, will be more limited than originally envisioned. The relative small size of its capital base (US\$700 million) suggest that CGIF's role is meant to be catalytic rather than deepening capital markets through volume. Also, the extent of the facility benefitting from preferred creditor treatment is also not clear as it provides guarantees to the private sector. However, we note that CGIF's status as a multilateral institution exempts it from a sovereign's transfer and convertibility restriction.

CGIF's articles of agreement delineate its governance standards. The 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. CGIF has also chosen to grow at a gradual pace, allowing its staffing capacity to catch up to the scale of operations. Treasury portfolio management is delegated to the AsDB, which results in conservative investment policies.

We assess CGIF's financial profile as extremely strong. The facility's risk-adjusted capital (RAC) ratio was 51% before adjustments at year-end 2015. After adjustments specific to multilateral institutions, CGIF's RAC ratio falls to 30%, which is still extremely strong. The main adjustment is its single-name exposure to the portfolio of guarantees for regional corporates, inherent to its start-up nature. Although CGIF's RAC ratio could fall over the next two years as its guarantee portfolio expands, we expect the ratio to remain at least very strong when we assess the capital adequacy.

This supports our assessment of an extremely strong financial profile. In addition, a potential capital increase exercise post 2017 could compensate for the deterioration.

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 commensurate with market trends. The CGIF had run small yearly profits since inception and we expect it to maintain its profitability.

Our assessment of CGIF's funding and liquidity also informs our view of its extremely strong financial profile. CGIF does not borrow; it obtains funding for its activities solely through contributors' equities and retained earnings. Our liquidity ratios indicate that the CGIF would be able to pay out its guarantees for at least a year under stressed market conditions, without recourse to liquidity facilities from contributors or from the market. Its liquid assets, managed by the AsDB, are invested mostly in bonds of highly rated governments or government-related entities. They form the bulk of its balance-sheet assets as of year-end 2015.

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 facility's capital adequacy and the effectiveness of its role in local currency regional capital markets.

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 expands its guarantee portfolio aggressively without a commensurate increase in capital.

Upward pressure on the rating could emerge when CGIF has built a track record and an ability to significantly contribute to a vibrant local currency regional capital market.

Stand-Alone Credit Profile: 'aa'

The CGIF's stand-alone credit profile is 'aa', reflecting our assessment of the facility's adequate business profile and extremely strong financial profile.

Business Profile: Adequate

We assess CGIF to have an adequate business profile. This opinion is based on our assessment of its governance, role, and public policy mandate.

Policy importance assessment

CGIF has a policy mandate to: (1) promote economic development, (2) promote resilience of the financial markets, and (3) prevent disruptions to international financial order by developing deep and liquid local currency and regional bond markets. CGIF provides guarantee to enable ASEAN+3 issuers to access local currency bond markets. The goal is to

aid efficient allocation of Asian savings within the region by facilitating access by companies to such markets while promoting the issuance of debt securities with longer-term maturities to match the gestation of investment projects.

CGIF was established by an international agreement in 2010--the Articles Of Agreement of Credit Guarantee And Investment Facility--which is binding on the facility's 13 member countries and AsDB (its shareholders). Under the founding charter, CGIF's earnings are exempt from taxes.

However, CGIF lacks a track record that includes a number of credit cycles and increases in capital subscriptions because of its short history. The extent of the facility benefitting from preferred creditor treatment is also not clear, because its operation is to provide guarantee or investment mainly to private sector companies or projects. Nevertheless, CGIF's status as a multilateral institution exempts it from a sovereign's transfer and convertibility restriction. No shareholder has withdrawn from the facility. We do not expect any withdrawals in the medium term.

Governance and management expertise

CGIF has a balanced shareholder base. All the shareholders are either governments or government-related agencies with strong government links and AsDB, a highly rated multilateral financial institution. There is no private sector shareholder.

The facility's founding charter delineates strong governance standards and a clear mandate. In our view, the management team has the necessary expertise and experience to conduct its business to achieve its mandate, despite its short track record. Its guarantee operations are controlled by conservative prudential limits: country concentration at 20% of its maximum guarantee capacity (MGC); currency concentration at 40% of MGC; sector concentration 40% of MGC; industry concentration 20% of MGC, and group and single borrower concentration at 20% of paid-in capital. The management has also chosen to grow at a steady pace, allowing its staffing capacity to catch up to the scale of operations.

Financial Profile: Extremely Strong

The CGIF's financial profile is extremely strong in view of our calculation of the organization's capital adequacy, as well as its funding and liquidity profiles.

Table 1

CGIF RACF [Risk-Adjusted Capital Framework] Year-End 2015			
(US\$ mil.)	Exposure	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit Risk			
Government and Central banks	379	14	4
Institutions	329	102	31
Corporate	759	1,278	168
Securitization	0	0	0
Other Assets	0	0	0
Total credit risk	1,467	1,393	95
Market Risk			
Equity in the Banking Book	0	0	0

Table 1

CGIF RACF [Risk-Adjusted Capital Framework] Year-End 2015 (cont.)		
Trading Book Market Risk	0	0
Total market risk	0	0
Insurance Risk	0	0
Operational Risk	0	28
Total operational risk	0	28
RWA before MLI adjustments	1,421	100
MLI Adjustments		
Industry and geographic diversification	(466)	(33)
Preferred creditor treatment	0	0
Single-name concentration	1,429	101
High-risk exposure cap	0	0
Total MLI adjustments	963	68
RWA after MLI adjustments	2,383	168
	Adjusted Common Equity	Standard & Poor's RAC ratio (%)
Capital ratio before adjustments	723	51
Capital ratio after adjustments	723	30

MLI-- Multilateral lending institutions. RW-- Risk weighting. RWA-- Risk-weighted assets.

Capital and Earnings

The facility's risk-adjusted capital (RAC) ratio was a very high 51% before adjustments at year-end 2015. After adjustments specific to multilateral institutions, CGIF's RAC ratio falls to 30%, which is still extremely strong. The main adjustment is its single-name exposure to its regional corporates guarantees portfolio. Although CGIF's RAC ratio could fall over the next two years as its guarantee portfolio expands, we project its RAC ratio to remain within our assessment to maintain the extremely strong financial profile.

As of Dec. 31, 2015, CGIF had no debt. Its Articles Of Agreement prohibit CGIF from borrowing. However, a meeting of contributors in 2013 agreed to increase CGIF's ratio of total outstanding guaranteed debts to paid-up capital plus retained earnings to 2.5:1 from 1:1 to allow for future increase of the facility's activities. As of end 2015, the leverage ratio was around 1.0. For the portion of leverage more than 2.5x above paid-up capital plus retained earnings, the shareholders require the facility to re-insure the exposure. Although the leverage level is still low, CGIF's risk has increased slightly from being virtually risk-free when it was set up.

We expect a capital increase to enhance the facility's financial capacity for further expansion of the business. In the medium to long term, as CGIF guarantees more bonds, more capital and, perhaps leverage, will be required. The amount of additional capital depends on the shareholders and CGIF's decision on where to strike a balance between business expansion and maintaining the prudence of its financial profile. How much CGIF can increase its leverage before it starts to affect its rating metrics, and subsequently the rating, also depends on the strength of the facility's track record and the possibility of extraordinary financial support from shareholders to increase its paid-in capital and liquidity. Nevertheless, as CGIF's portfolio of bond guarantees increases, its concentration risk on single transaction declines, if the portfolio is diversified by country and industry.

Earnings

CGIF does not seek to maximize income. Instead, it seeks to balance its development goals against maintaining its financial strength and increasing its risk-bearing capacity. The capital structure and the operational cost structure of the facility are self-sufficient to maintain CGIF's financial soundness. Since its inception, CGIF has been recording small profits.

Funding and liquidity

CGIF's strong liquidity is an important factor supporting the rating. Our funding and liquidity ratios for CGIF indicate that the facility would be able to fulfill its mandate for at least one year, without access to capital markets. This is true even under extremely stressed market conditions. The bulk of its balance-sheet assets are in high-investment-grade securities of government and government-related entities.

As CGIF does not lend or borrow, any material outflow of funds would be toward default payments under guarantees of which there are none to date. Over the next 24 months, CGIF has guarantees worth US\$232 million maturing. These are comfortably covered by its equity base of US\$725 million.

Funding for CGIF's activities comes entirely from shareholders' equity and retained earnings; it cannot borrow for these purposes.

Likelihood Of Extraordinary Shareholder Support

We expect the likelihood of extraordinary shareholder support will not be as strong as those entities that have callable capital. Besides, the shareholders' obligations are limited to their paid-up capital in the Articles of Agreement. However, because of the mandate given to CGIF by the shareholders, we believe some support by shareholders is possible.

Table 2

Credit Guarantee and Investment Facility--Assets And Liabilities				
(US\$, '000)	2015	2014	2013	2012
Assets				
Cash	3,183	1,905	3,053	1,709
Investments	718,272	712,856	709,374	709,091
Government or government guaranteed obligations	646,406	666,560	690,208	621,091
Corporate obligations	65,068	10,697	11,165	0
Time deposits	6,798	35,599	8,001	88,000
Accrued interest income	3,430	4,150	3,226	2,903
Guarantee fee receivable	25,533	20,732	1,183	-
Other assets	1,082	843	1,137	993
Total	751,569	740,486	717,973	714,696
Liabilities and members' equity				
Guarantee liability	27,841	22,499	1,765	0
Deferred earnings on guarantees	89	11	4	0
Accrued expenses	382	777	272	127

Table 2

Credit Guarantee and Investment Facility--Assets And Liabilities (cont.)				
(US\$, '000)	2015	2014	2013	2012
Payable to others fund	-	-	-	12
Other liabilities	700	700	700	696
Total liabilities	29,012	23,987	2,741	835
Members' equity (CGIF-4)				
Capital stock (Subscribed capital)	700,000	700,000	700,000	700,000
Less receivables from contributors	0	0	0	0
Unrealized gain on available-for-sale investments	(2,131)	(408)	1,873	3,220
Reserves	16,907	13,359	10,641	6,532
Retained earnings	7,781	3,548	2,718	4,109
Total members' equity	722,557	716,499	715,232	713,861
Total	751,569	740,486	717,973	714,696

Table 3

Credit Guarantee and Investment Facility--Profit And Loss				
(US\$, '000)	2015	2014	2013	2012
Revenue				
Interest income	9,268	8,310	7,648	8,008
Guarantee fees	4,664	1,322	419	0
Realized gain from securities	219	487	0	0
Fair value changes - derivatives	76	0	0	0
Others	524	13	65	1
Total revenue	14,751	10,132	8,132	8,009
Expenses				
Administrative expenses	5,566	5,511	4,405	2,937
Financial expenses	50	56	49	37
Depreciation expenses	241	276	246	234
Other miscellaneous expenses	700	700	700	696
Total expenses	6,557	6,543	5,400	3,904
Total operating income	8,194	3,589	2,732	4,105
Changes in fair value of derivatives	0	0	0	0
Translation (loss) gain	(413)	(41)	(14)	4
Net income	7,781	3,548	2,718	4,109

Related Criteria And Research

Related Criteria

- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 1, 2016
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 6, 2010

- Criteria - Governments - General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology - November 26, 2012

Related Research

- Asian Development Bank Ratings Affirmed At 'AAA/A-1+' With Stable Outlook, June 23, 2016

Ratings Detail (As Of July 8, 2016)

Credit Guarantee and Investment Facility

Issuer Credit Rating	
<i>Foreign Currency</i>	AA/Stable/A-1+
<i>ASEAN Regional Scale</i>	axAAA/--/--
Senior Unsecured	
<i>ASEAN Regional Scale</i>	axAAA
Senior Unsecured	AA

Issuer Credit Ratings History

18-Jun-2014	<i>Foreign Currency</i>	AA/Stable/A-1+
24-May-2012		AA+/Stable/A-1+
24-May-2012	<i>ASEAN Regional Scale</i>	axAAA/--/--

Related Entities

Asian Development Bank

Issuer Credit Rating	
<i>Foreign Currency</i>	AAA/Stable/A-1+
Commercial Paper	
<i>Foreign Currency</i>	A-1+
Senior Unsecured	
<i>Greater China Regional Scale</i>	cnAAA
Senior Unsecured	AAA

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Copyright © 2016 by Standard & Poor's Financial Services LLC. 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 acknowledgment 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 (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and 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.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.