

CREDIT GUARANTEE AND INVESTMENT FACILITY

No. 167/2019

15 October 2019

SUPRANATIONALS

Company Rating: AAA
Outlook: Stable

Last Review Date: 10/10/18

Company Rating History:

Date	Rating	Outlook/Alert
28/08/14	AAA	Stable

Contacts:

Annop Supachayanont, CFA
annop@trisrating.com

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Narumol Charchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Credit Guarantee and Investment Facility (CGIF), a trust fund of Asian Development Bank (ADB), at “AAA”. 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. TRIS Rating believes there is a high likelihood that CGIF will receive financial support from its major contributors in times of financial distress. We also factor in strategically important objectives of the contributors that CGIF also serves by promoting development of the regional bond markets.

In 2017, CGIF’s contributors approved a capital increase proposal (CIP) to raise CGIF’s paid-up capital on an uncommitted basis to US\$1.2 billion by 2023 from US\$700 million to support business expansion. Since then, there have been rounds of capital injection by a number of contributors. CGIF’s paid-up capital reached US\$1.054 billion as of September 2019, with ADB being the latest contributor of US\$50 million. The capital contribution from contributors reflects their ability and willingness to provide financial support and maintain long-term partnership with CGIF to achieve development objectives.

S&P Global Ratings also assigns ratings to the top four contributors, which contributed around 90% of CGIF’s capital, in a range of “A+” to “AAA”. These include Japan Bank for International Cooperation, People’s Republic of China, ADB, and Republic of Korea.

Solid capital buffer

We expect CGIF to continue maintaining sufficient capital buffer to absorb potential credit loss under a stress scenario. This is in part due to the size of guarantee portfolio, net of reinsurance, which stood at a conservative 1.14 times over total capital at the end of June 2019. We also do not foresee any likely increase to an internal limit of 2.5 times over the next three years. CGIF’s Basel-II capital adequacy ratio, net of reinsurance, was 31.8% at the end of June 2019, well above an internal floor of 8.8%.

Conservative risk management contains guarantee risk

CGIF has prudently adopted internal credit risk assessment guidelines, governance framework, and audit policies that are developed by international standards. Conservative underwriting with internal credit risk assessment based on well-defined risk parameters should continue to help CGIF maintain good credit quality of its guarantee portfolio. The risk-based pricing framework should also provide CGIF with adequate cushion against potential claims. Furthermore, CGIF’s utilisation of credit risk mitigation tools, such as reinsurance and counter-guarantees is helping to reduce credit risk and free up its guarantee capacity. There has been no default case so far as of the first quarter of 2019 (H1/19).

However, going forward CGIF's strategic focus on frontier markets may expose CGIF to higher credit risk. Even as CGIF tends to provide guarantees to companies with acceptable credit profile based on its internal guidelines, credit risk could heighten as some of CGIF-guaranteed bond issuers have major business operations in countries with relatively less established economic and legal environment.

As for CGIF's overall country exposure per total capital, this remains well within pre-defined limits. We, however, notice a strong increase in the exposure for some countries. For instance, exposure to Vietnam has reached 32% of total guarantee as of H1/19, up from 26% as of H1/18. Exposure to cyclical sectors, such as real-estate developments and consumer discretionary, also increased meaningfully from the previous year.

Good quality investment portfolio

We expect CGIF to maintain good asset quality of its investment portfolio, supported by conservative investment strategy. Its investments are 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. CGIF has recently revised the minimum credit ratings for investments in debts issued by GREs of contributing countries to "A+", a notch below "AA-" for all others. In our opinion, this still poses no material risk to CGIF as investments in GRE-issued debts are subject to a conservative country exposure limit of 10% of CGIF's equity. CGIF also maintains target duration of its investment at 2 to 4 years. An average duration of its investments was 2.61 years at end-2018, below 2.85 years at end-2017.

We also expect income from investments to remain a meaningful earnings contributor to CGIF's capital in the medium term, despite continuous growth in revenues on guarantees. In H1/19, interest income made up 61% of gross revenue¹. Other main sources of income were guarantee fees and commission fees from reinsurers.

Liquidity remains strong

We expect CGIF's liquidity to remain strong. CGIF regularly applies stress scenarios using conservative assumptions to assess its liquidity position, in our opinion. Cash inflows from investments and guarantee fees need to cover cash outflows from operating expenses over the next 12 months. Further, investment portfolios comprise marketable fixed-income securities with high credit ratings that can be readily liquidated to support funding needs. CGIF can also engage in repurchase transactions to manage its liquidity needs.

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 its 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.

RATING SENSITIVITIES

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. 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;

¹ According to unaudited financial statements.

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

Unit: US\$ million

	Jan-Jun * 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Interest income	12.2	19.7	12.5	10.4	9.4
Guarantee income	6.4	8.7	8.4	7.7	4.8
Other revenue**	1.3	1.1	0.1	1.1	0.8
Total revenue	19.9	29.5	21.0	19.2	14.8
Net income from operations	12.2	15.1	10.7	10.8	8.2
Total assets	1,148.2	957.8	779.1	772.0	751.6
Total liabilities	56.4	46.8	39.9	44.5	29.0
Shareholders' equity	1,092.1	911.0	739.2	727.5	722.6

* Unaudited and not annualised

** Including realised gain (loss) from securities, fair value changes from derivatives and miscellaneous income

RELATED CRITERIA

- Rating Methodology for Supranational Institutions, 24 July, 2014

Credit Guarantee Investment Facility (CGIF)

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2019, 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 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