Research Update:
Credit Guarantee And Investment Facility Assigned 'AA+/A-1+' Foreign Currency Ratings; Outlook Stable

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Overview
- The rating on CGIF reflects our view of the facility's conservative guarantee and investment strategies, as well as 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 assigning our 'AA+/A-1+' foreign currency ratings and 'axAAA/--' ASEAN scale rating on CGIF.
- The stable outlook reflects our expectation that CGIF will develop its business cautiously and that the facility will adhere to prudent capital and liquidity guidelines.

Rating Action
On May 25, 2012, Standard & Poor's Ratings Services assigned its 'AA+' long-term and 'A-1+' short-term foreign currency ratings on Credit Guarantee and Investment Facility (CGIF). The outlook is stable. We also assigned our 'axAAA/--' ASEAN scale rating on the facility. CGIF is a trust fund established by the Asian Development Bank (AsDB; foreign currency AAA/Stable/A-1+), which is the facility's 18.6% owner.

Rationale
The ratings on CGIF are supported by the facility's 100% capital coverage of its insurance obligations, its mandate to help develop local and regional currency debt markets in the Association of Southeast Asian Nations (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 ASEAN, and China, Japan, and Korea, where the bonds are denominated in ASEAN currencies. According to CGIF's strategy, if the facility decides to extend guarantees exceeding its capital base, it will re-insure all such guarantees with insurers rated at least 'AA'.

CGIF's lack of a track record and concentration risk constrain the ratings. There is no clear emergency support mechanism for CGIF, although the Facility invests its capital in liquid assets rated 'AA-' or higher. While CGIF has concentration risk to the 10 countries in ASEAN as well as China, Japan, and Korea, given its relatively focused operations, the risk is likely to dissipate as the facility expands.
Except for AsDB, CGIF's other shareholders are sovereign governments or government-related entities of the countries in which the facility operates. CGIF aims to promote economic development and capital market resilience by helping to develop deep and liquid ASEAN currency bond markets.

CGIF's main function as the guarantor of ASEAN currency bonds is to manage currency mismatches between the financing currency and the currency which the obligor uses in most of its operations, as well as to facilitate longer-term bond issuance. CGIF also helps facilitate bond market access for companies and projects seeking entry to regional financial markets outside their home countries.

**Outlook**

The stable outlook reflects our expectation that CGIF will develop its business cautiously. We also expect the facility 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. We could lower the ratings if 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**

- Bond Insurance Rating Methodology And Assumptions, Aug. 25, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

**Ratings List**

**New Rating**

Credit Guarantee and Investment Facility

Issuer Credit Rating

- Foreign Currency: AA+/Stable/A-1+
- ASEAN scale rating: axAAA/--/--

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor’s public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.