Credit Guarantee and Investment Facility

Ratings

Credit Guarantee and Investment Facility

National IFS Rating	AAA(idn)
National Long-Term Rating	AAA(idn)

Outlooks

National IFS Rating	Stable
National Long-Term Rating	Stable

Financial Data

Credit Guarantee and Investment Facility

(USDm)	2022 Audited	2021 Audited
Total equity	1,223	1,292
Total assets	1,305	1,373
Return on equity (%)	2	2
Net income	14	30

Source: Fitch Ratings, CGIF

Applicable Criteria

Insurance Rating Criteria (July 2023)

National Scale Rating Criteria (December 2020)

Related Research

Global Insurance 2024 Outlook Compendium

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Key Rating Drivers

'Moderate' Company Profile: Fitch Ratings assesses Credit Guarantee and Investment Facility's (CGIF) company profile as 'Moderate' due to a 'Moderate' business profile and 'Moderate/Favourable' corporate governance. The 'Moderate' business profile reflects its substantive business, which is offset by its small scale of operations. The assessment also takes into account CGIF's risk appetite, which is in line with its mandate, and somewhat diversified business lines.

Capitalisation Remains Solid: Fitch expects CGIF to judiciously manage its net par/capital ratio – defined as total outstanding guarantee exposure after reinsurance relative to members' equity – as its guarantee portfolio expands. Fitch expects the ratio, which stood at 1.1x at end-2022, to remain at or below 2.0x.

High-Risk Insured Portfolio: Fitch expects the company to maintain prudent underwriting in light of the business focus on a high-risk insured portfolio. CGIF's insured portfolio is exposed to issuers with non-investment-grade ratings, as it provides largely local currency-denominated guarantees on emerging-market Asian debt.

One of CGIF's guaranteed bond issuers defaulted on its obligation at bond maturity in December 2021. The issuer reimbursed CGIF for payments of coupon as well as additional accrued interest from the maturity date until the guarantee payment date and legal expenses. CGIF is working with the issuer for the reimbursement of guarantee payments as well as costs and expenses incurred by CGIF subsequent to the guarantee payments. CGIF's return on equity was 1.1% in 2022 (2021: 2.3%).

Manageable Investment Risk: CGIF invests only in fixed-income securities with maturities of more than one year that are rated at least 'A+' on an international scale for government-related issuers of CGIF contributor countries and 'AA-' for other issuers. Its investments in short-term fixed-income instruments cannot be lower than 'F1' on Fitch's rating scale.

Operational Linkage with AsDB: CGIF, a trust fund of the Asian Development Bank (AsDB, AAA/Stable), benefits from its affiliation with AsDB and shares AsDB's multilateral supranational status. CGIF continues to manage its guarantee operations cautiously by adopting prudent operational policies and adhering to its risk-management framework.

Diversified Ownership Structure: CGIF's paid-in capital increased to USD1.158 billion by August 2023, with authorised capital of USD1.2 billion. The company's capital was contributed by AsDB and various ASEAN + 3 (China, Japan and South Korea) nations, several of which are highly rated, and was used to form CGIF to support the development of ASEAN + 3 capital markets.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- A surge in after-reinsurance notional insured par/capital leverage ratio to consistently higher than 6x
- Material increase in reliance on reinsurance protection for a prolonged period

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- CGIF's ratings are already at the highest possible level and therefore cannot be upgraded

Company Profile

Moderate Business Profile and Moderate/Favourable Corporate Governance

CGIF was established in 2010 to support the development of debt capital markets in ASEAN + 3 by providing financial guarantees on debt issues. It started operation in 2012 and wrote its first bond guarantee in 2013. Its capitalisation of USD1.2 billion is above that of a guarantor with a 'Favourable' operating scale, while revenue is aligned with a 'Least Favourable' operating scale. However, we regard CGIF as a much larger organisation, based on operational infrastructure, in light of its linkage with AsDB.

CGIF provides guarantees to existing issuers to extend their bond maturities, expand their investor base, and support cross-border transaction.

Premiums from the guarantee business amounted to USD20 million in 2022. Fitch expects CGIF to build up its operating record steadily in the bond guarantee segment as its coverage expands. CGIF targets first-time issuers without, or with limited, local bond-market access and mainly supports corporates in south-east Asia as well as China, South Korea and Japan.

Fitch regards CGIF as unique, as it is sponsored and operated by AsDB, an established multilateral supranational. CGIF is set up as a trust fund of AsDB rather than as a separate, independent legal entity. Hence, it is accorded the same supranational status, as incorporated under Article 13.2 of its Articles of Association, which states that "the privileges, immunities, and exemptions accorded to AsDB pursuant to the Agreement Establishing the Asian Development Bank shall apply to (i) the Trustee, and (ii) the property, assets, archives, income, operations and transactions of CGIF". The organisation, like the AsDB, is not subject to the laws of the Philippines, where it is based, and, as such, is immune from taxation, local business laws and bank or insurance regulations.

AsDB has close ties with CGIF and provides strong operational support, appointing staff as well as holding in trust and managing CGIF's funds and assets, as set out in the Articles of Association. CGIF's risk-management culture and procedures are largely adopted from AsDB.

Fitch also thinks CGIF's growth strategy is more favourable than that of commercial operators. There is no time pressure from AsDB or the capital contributors to quickly utilise capital for guaranteeing bond obligations, giving CGIF leeway to carefully select the issuance it guarantees, instead of adopting an aggressive or fast-growth path. This approach is in line with AsDB's philosophy.

Nonetheless, CGIF is focused on undeveloped business segments, as the use of debt guarantees in ASEAN + 3 is limited. This carries higher-than-average risk of making an adverse selection, as it is difficult to judge the business viability of the companies that seek to issue insured debt. This risk is core to CGIF's business model and is not mitigated by operational linkages with AsDB. CGIF guarantees bonds in diverse sectors, including telecommunications, financial institutions and healthcare. It also supports cross-border transactions within its target markets by looking for opportunities to provide guarantees to local corporations. CGIF aims to support bonds with high developmental impact in the region, such as thematic bonds, Islamic finance, securitisation and project bonds.

Moderate/Favourable Corporate Governance

Fitch considers CGIF's corporate governance to be effective and neutral to the ratings. The governance structure consists of the meeting of contributors, an eight-member board, three board committees and two management committees. The board comprises the CEO, two representatives each from China and Japan, and one each from ASEAN, South Korea and ASDB. These country representatives are from the ministries of finance or development banks. The board meets at least three times a year.

Ownership

Neutral Ownership

Japan, China and Korea contributed around 75% of the capital of CGIF. The number of votes for each contributor is equivalent to the proportion of its capital contribution. Hence, the largest contributors retain the strongest decision-making power.

Callable capital facilities are used for some supranational organisations, but CGIF's capital providers chose not to use such an approach.

CGIF Capital Contributors at October 2023

	(%)	Rating/Outlook
China	29.61	A+/Stable
Japan	29.61	A/Stable
AsDB	15.55	AAA/Stable
Korea	14.80	AA-/Stable
Indonesia	2.64	BBB/Stable
Philippines	1.87	BBB/Stable
Singapore	1.87	AAA/Stable
Thailand	1.87	BBB+/Stable
Malaysia	1.52	BBB+/Stable
Brunei Darussalam	0.48	n.a.
Vietnam	0.16	BB+/Stable
Cambodia	0.02	n.a
Lao People's Democratic Republic	0.02	n.a.
Republic of the Union Myanmar	0.01	n.a.
Total	100.00	

Source: Fitch Ratings, Fitch Solutions, CGIF

Capitalization and Leverage

Satisfactory Capitalisation

CGIF guaranteed 40 bonds amounting to a total of USD2 billion by end-2022, including bonds denominated in Singapore dollars, Vietnamese dong, Philippine peso, Japanese yen, Cambodian riel, Thai baht, Malaysian ringgit, and Indonesian rupiah. The guaranteed bonds had average tenures of three to 10 years and were issued by corporations in various sectors, including telecommunications and automobiles. CGIF's net par/capital leverage was 1.1x at end-2022. CGIF's paid-up capital was USD1.158 billion in August 2023. The contributors approved to increase its authorised capital to USD1.2 billion in December 2017 from USD700 million.

Financial Highlights

(USDbn)	2022	2021
Total shareholders' equity	1.2	1.3
Notional insured par [a]	2.2	2.3
Net par/capital leverage (x)	1.1	1.0
Financial leverage (%)	0	0

[a] Maximum guaranteed amount includes principal and coupon
Source: Fitch Ratings, CGIF

Fitch's Expectations

- Capitalisation to remain solid, with a net par/capital ratio of below 2.0x over the long term

Financial Performance and Earnings

Lower Profitability

CGIF booked lower return on equity of 1.1% in 2022 from 2.3% in 2021 due to higher impairment losses from one guaranteed bond issuer that defaulted in 2021. CGIF is working with the defaulted issuer for the recovery of guarantee payments.

CGIF does not have specific profit targets or mandates, aside from its objective of supporting the development of the Asian bond market. This differs from most privately owned and commercially run organisations, which have earnings growth and dividend targets. This makes CGIF's performance goals similar to those of mutual insurance companies and government agencies whose profit margins are set to ensure reasonable compensation for the risk assumed, and to support long-term capital growth that is commensurate with forecast business growth.

Fitch sees CGIF's insured portfolio as high risk within the context of its rating criteria for guarantors. A high-risk portfolio is characterised by a high frequency and severity of losses and uncapped currency risk. CGIF's underwriting and controls appear well-thought-out and prudent, albeit untested, to manage the high risk from its insured portfolio. CGIF is exposed to volatile guarantee risks because it guarantees non-investment-grade corporate issuance. It is also exposed to foreign-currency risk, as it provides local currency-denominated guarantees to emerging markets.

CGIF caps the size of each bond guarantee at 20% of its paid-in capital, with sub-limits of up to 20% of its maximum guarantee capacity per country and up to 40% of its maximum guarantee capacity per currency. This ensures business diversification, and curbs exposure to any single country or currency. CGIF factors in the level of paid-in capital and retained surplus, credit-loss reserves, foreign-exchange loss reserves, the amount of illiquid investments and the maximum leverage ratio to determine the level of maximum guarantee capacity. Bonds guaranteed by CGIF are generally limited to tenors of 10 years or below.

Financial Highlights

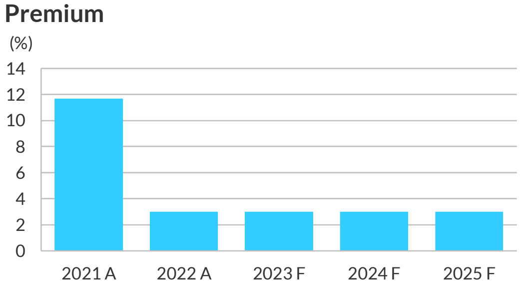
(%)	2022	2021
Net income (USDm)	13.8	29.8
Return on equity	1.2	2.3

Source: Fitch Ratings, CGIF

Fitch's Expectations

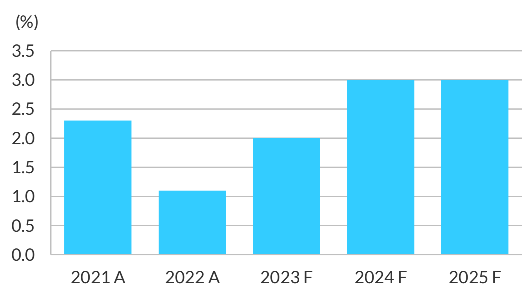
- Maintain its prudent underwriting practice in light of its business focus on a high-risk-insured portfolio.
- Fitch forecasts gross written premium (guarantee fee) growth to remain moderate at 3% in 2023 and 2024, driven by rates hikes.
- Fitch forecasts return on equity to rise to 3% in 2024, on lower impairment losses.

Fitch Forecast - Growth in Gross Written Premium



Source: Fitch Ratings

Fitch Forecast - Return on Equity



Source: Fitch Ratings

Investment and Asset Risk

Prudent Investment Approach

CGIF's key investment objective is to protect the principal amount of its investments by investing in liquid, low-risk and high-credit-quality instruments. Investments are managed by AsDB's treasury in accordance with CGIF's treasury risk-management guidelines, which have been adopted in agreement with the contributors. CGIF invests in only cash and deposits and fixed-income securities. No equity investments are considered. Eligible fixed-income securities with maturity terms of more than one year must be rated at least 'A+' on an international scale for government-related issuers of CGIF contributor countries and 'AA-' for other issuers. CGIF may invest in fixed-income securities with remaining terms to maturity of up to one year with short-term credit ratings of at least 'A-' or equivalent.

CGIF has significant exposure to foreign-currency risk because it guarantees bonds denominated in various currencies of the market of issuance, while its functional currency is the US dollar. However, CGIF is free from a convertibility risk as CGIF has an option to settle guarantee obligations in US dollars (or substitute currency) in principle. As a result, CGIF is not at a risk of defaulting on guarantee due to lack of access to the bond issue's currency.

Fitch does not expect CGIF to face severe liquidity problems due to its appropriate management of liquidity risk. All of CGIF's investments, by policy, must be marketable within a reasonable time. CGIF allocated more than 90% of its investments to bonds and time deposits with maturity durations of less than five years in 2022, giving the portfolio a duration of three years at the end of the year. The possibility of a liquidity crisis is limited due to CGIF's right to accelerate or retain the original interest or principal payment schedule in the event of a default on an insured bond, eliminating liability-acceleration risk. CGIF has a global master repurchase agreement with a European bank that allows it to transact in repos, when necessary – for instance, when bond defaults are high during a period of high interest rates, implying unrealised losses exist on the invested bond portfolio – instead of liquidating a security before maturity, especially at a loss.

Financial Highlights

(%)	2022	2021
Risky asset ratio	0	0
Equity investment capital	0	0

Source: Fitch Ratings, CGIF

Fitch's Expectations

- No significant change to the risk profile of CGIF's investment in light of its investment approach.

Reserve Adequacy

Credit Loss Reserves Based on Credit Rating

CGIF assesses credit loss reserves according to Basel standards. Credit-loss reserves are assessed as the amount of expected loss, the product of each account's probability of default and loss given default, where probabilities of default correspond to the internal credit rating of individual bond issuers. According to CGIF's Operational Policies and to ensure that CGIF correctly applies international technical standards in its credit ratings, CGIF may commissions an internationally renowned rating advisory company to independently assess the credit rating of each proposed guaranteed bond issuer.

Each outstanding guarantee is reviewed and re-rated at least annually. Should a bond issuer's credit profile deteriorate, additional provisions are set aside based on the perceived lower credit rating. Management also makes specific provisions for any at-risk guarantee on a case-by-case basis based on ongoing monitoring of all guarantees outstanding.

Reinsurance, Risk Mitigation and Catastrophe Risk

Reinsurance Cover Mitigates Risk

CGIF has arranged a quota-share reinsurance treaty to support its underwriting capacity. All reinsurers under this treaty have an IFS rating of at least 'A-'. There has been no material change to the 25% quota share reinsurance treaty programme. Nonetheless, several accounts were reinsured under a special acceptance cession to ensure sufficient diversity in the guarantee portfolio. This exception was approved by the investment committee.

Financial Highlights

(%)	2022	2021
Reinsurance recoverable to capital	0	0
Single risk par/capital	12	11
Net notional par/gross notional par insured	67	67

Source: Fitch Ratings, CGIF

Fitch's Expectations

- CGIF's risk management and risk-mitigating capabilities to remain robust.

Appendix A: Peer Analysis

Peer Comparison

CGIF has no equivalent like-for-like peers for a relevant peer comparison, given its specialised nature and focus on supporting the development of debt capital markets in Asia by providing financial guarantees on debt issues.

Fitch compares CGIF with GuarantCo Ltd., a financial guarantor that is also owned by government agencies and follows development objectives. GuarantCo proves infrastructure guarantees in Africa and Asia.

Peer Comparison

(USDm)	IFS Rating	Shareholders' Equity	Gross Par	Net par/capital (x)	Financial leverage (%)	Return on equity (%)	Risky assets/equity (%)
CGIF	AAA (idn)/ Stable	1,223	1,968	1.1	0	1.1	0
GuarantCo	AA-/Stable	225	678	1.1	0	-11.8	0

Source: Fitch Ratings, CGIF, GuarantCo, FYE 2022

Appendix B: Industry Profile and Operating Environment

Industry Profile and Operating Environment (IPOE)

Click here for a link to a report that summarizes the main factors driving the above IPOE score.

Appendix C: Other Rating Considerations

Below is a summary of additional ratings considerations that are part of Fitch's Insurance Rating Criteria.

Short-Term Ratings

Not applicable.

Recovery Analysis and Recovery Ratings

Not applicable.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.