CREDIT GUARANTEE AND INVESTMENT FACILITY

No. 139/2017 6 November 2017

Company Rating: AAA

Outlook: Stable

Company Rating History:

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

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Rating Rationale

TRIS Rating affirms the company rating of Credit Guarantee and Investment Facility (CGIF) at "AAA". The rating reflects CGIF's status as a supranational institution owned by the governments of the ASEAN+3 countries and the Asian Development Bank (ADB), together called "contributors". The rating also reflects CGIF's strong business platform and conservative risk management framework. The rating takes into consideration CGIF's short operational track record and the challenges it faces as it expands.

CGIF was founded in 2010 as an initiative of 10 ASEAN countries, together with China, Japan, Korea, and the ADB. CGIF's main objective is to provide credit guarantees. The guarantees allow eligible issuers to access local currency bond markets in the region, thus avoiding currency and maturity mismatches. ADB is the trustee of CGIF. It holds in trust all of CGIF's capital and is responsible for managing that capital. CGIF finances its operations solely from capital. It can engage in repurchase agreements (repos) with eligible counterparties for cash management purposes or meeting short-term liquidity requirements.

CGIF's strong business profile reflects its business platform, which is adequately structured to support its policy objectives and functions. CGIF's competitive edge is in providing credit guarantees for cross-border transactions, for issuers tapping into bond markets in countries with high credit spreads.

CGIF's guarantee portfolio comprises bonds issued by issuers with credit risks comparable to the international-scale rating of "BB-" or better. For investment beyond one year, a bond issue must have an international-scale rating of at least "AA-".

TRIS Rating holds the view that CGIF provides mutual benefits for the ASEAN+3 nations that are its contributors. CGIF's objectives and functions play a strategically important role in promoting the development of regional bond markets. Given the financial strength of CGIF's major contributors and importance of its policy mandate, TRIS Rating believes there is a high likelihood that CGIF will receive financial support from its major contributors in times of financial distress.

As of June 2017, CGIF limited its maximum guarantee capacity (MGC) at about US$1.8 billion. The MGC is computed as the product of (1) CGIF's paid-in capital plus retained earnings, less credit loss reserves, foreign exchange loss reserves, and all illiquid investments, and (2) the maximum leverage ratio of 2.5. As of July 2017, CGIF provided credit guarantees to 11 issuers, on 15 bond issues worth US$928.5 million in total, or about 51% of the MGC.

CGIF's capital adequacy ratio has further strengthened. Its Basel II capital adequacy ratio was 28% at the end of June 2017, up from 19.3% at the end of June 2016. In 2016, CGIF signed a reinsurance treaty with a syndicate of major global reinsurers to cede a portion of its guarantee exposure. The capital ratio improves as the higher credit ratings of reinsurers lower the credit capital charges of its guarantee portfolio.

Strong capital adequacy assessment also reflects the size of CGIF's guarantee portfolio and a prudent risk management framework. Its guarantee portfolio remains well below the MGC. CGIF applies prudential limits and the guidelines on credit quality of issuers for which it provides guarantees. These specify, among other things, maximum limits for country concentration, currency concentration, aggregate sector concentration, and single borrower concentration.

CGIF increased an average effective duration of its investment portfolio to 2.6 years at the end of 2016, from 1.8 years in the previous year. As a result, returns from investment portfolio improved to 1.46% per annum (p.a.) in 2016, up from 1.3% in 2015. Yet, CGIF may be exposed to a higher level of interest rate risk. CGIF targets an average effective duration of its investment portfolio at two to four years.

CGIF's liquidity profile should remain very strong. We expect cash inflows from investments and guarantee fees to cover cash outflows from operating expenses over the next 12 months. Investment portfolios comprise marketable fixed-income securities with high credit ratings. CGIF can engage in repo transactions to manage its liquidity needs. Further, CGIF regularly applies stress scenarios to assess its liquidity position.

In TRIS Rating's view, CGIF will face the following challenges in the near term. Cross-border bond issuance remains a challenge, with an integration of the regional bond markets still at an early stage. CGIF also places its developmental focus on countries without a well-developed bond market, where regulations and infrastructure are often lacking. Issuing a guarantee in these markets can further extend its underwriting timeline.

Rating Outlook

The "stable" outlook reflects the expectation that CGIF will maintain a strong financial profile and a prudent risk management framework. 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.

Credit Guarantee and Investment Facility (CGIF)

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Rating Outlook:	Stable

Key Financial Statistics

Unit: US$ million

	Jan-Jun * 2017	----------------------- Year Ended 31 December ----------------- 2016	2015	2014	2013	2012
Income on investment	5.9	10.4	9.4	8.8	7.6	8.0
Income from guarantee	4.4	7.7	4.8	1.3	0.4	0.0
Total revenue	10.3	19.2	14.8	10.1	8.1	8.0
Net income from operations	5.2	10.8	8.2	3.6	2.7	4.1
Total assets	776	772.0	751.6	740.5	718.0	714.7
Total liabilities	40	44	29.0	24.0	2.7	0.8
Shareholders' equity	736	728	722.6	716.5	715.2	713.9

* *Not annualised*

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