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Research Update:

Credit Guarantee And Investment Facility Long-Term Rating Lowered To 'AA'; Outlook Stable

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Research Update:

Credit Guarantee And Investment Facility Long-Term Rating Lowered To 'AA'; Outlook Stable

Overview

- We have reassessed CGIF's ability to execute its mandate and revised our projections on the fund's credit metrics.
- We are lowering our long-term foreign currency issuer credit rating on CGIF to 'AA' from 'AA+'. We are also affirming our 'A-1+' short-term foreign currency issuer credit rating and the 'axAAA' long-term ASEAN regional scale credit rating on the trust fund of the AsDB.
- The stable outlook reflects our view that the risks to the rating on CGIF are balanced over the next 24 months.

Rating Action

On June 18, 2014, Standard & Poor's Ratings Services lowered its long-term foreign currency issuer credit rating on the Credit Guarantee and Investment Facility (CGIF) to 'AA' from 'AA+'. The outlook is stable. At the same time, we affirmed our 'A-1+' short-term foreign currency issuer credit rating and the 'axAAA' long-term ASEAN regional scale credit rating on the trust fund of the Asian Development Bank (AsDB), a stakeholder in CGIF.

Rationale

We lowered the rating following our reassessment of CGIF's capital adequacy and market position.

CGIF's mandate is to develop deep and liquid local currency and regional bond markets by issuing guarantees. As of December 2013, a little over three years since the fund's inception, it had issued two guarantees: for Noble Group Ltd. (a 3.55% Thai baht 2.85 billion bond due 2016) and for PT BCA Finance (a 8.20% Indonesian rupiah 300 billion note due 2016). Although CGIF has more transactions in the pipeline, we believe that the deepening of the Association of Southeast Asian Nations (ASEAN) bond markets by credit enhancement will be more limited than CGIF originally envisioned. As a result, we believe CGIF will seek to expand its business by guaranteeing weaker credits than we had originally assumed and increasing exposure to stronger credits. These trends will raise the fund's future embedded credit and concentration risks.

We believe that CGIF's creditworthiness benefits from its relationship with its shareholders and the mandate they have entrusted it with. CGIF is a mono-line bond insurer owned by the AsDB (18.6%), China (28.6%), Japan (28.6%), Korea (14.3%), and the 10 ASEAN governments (collectively 10%). However, we note that the shareholders' commitment to CGIF is limited to their capital contribution, which is US$700 million in total.

We expect CGIF's strong liquidity and capitalization relative to the size of its guaranteed assets to slowly decline over the next two years. As a start-up operation, CGIF is liquid and well capitalized as of Dec. 31, 2013, in our opinion. The AsDB manages CGIF's capital, which is invested mostly in bonds of highly rated governments or government-related entities. CGIF manages concentration risk through a set of prudential limits, which, however, leave room for single-name concentration inherent to the start-up nature of the portfolio. Unlike supranational institutions lending directly to governments, CGIF may not benefit from preferred creditor treatment. We expect potential future losses on the guaranteed bonds to be commensurate with market trends.

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

Upward pressure on the rating could emerge if CGIF raises additional capital, demonstrates an ability to employ it efficiently, and contributes to a vibrant local currency regional capital market.

We could lower the rating if: (1) CGIF struggles to execute its mandate at a profit; or (2) CGIF's financial metrics weaken more than we expect, which could be due to the fund accumulating a guarantee portfolio with lower credits.

Related Criteria And Research

Related Criteria

- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Research Update: Asian Development Bank 'AAA/A-1+' Ratings Affirmed, Outlook Stable, June 3, 2014

Ratings List

Downgraded

	To	From

Credit Guarantee and Investment Facility		
Issuer Credit Rating		
Foreign Currency	AA/Stable/A-1+	AA+/Stable/A-1+

Ratings Affirmed

Credit Guarantee and Investment Facility	
ASEAN Regional Scale	axAAA/--/--

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