CREDIT GUARANTEE AND INVESTMENT FACILITY

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Company Rating: AAA

Outlook: Stable

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Rating Rationale

TRIS Rating assigns 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 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 records and challenges in expanding business size.

CGIF was founded in 2010 under the initiative of 10 ASEAN countries, together with China, Japan, Korea, and ADB. CGIF’s main objectives are to provide credit guarantee services to allow eligible issuers to access local currency bond markets and thereby avoid currency and maturity mismatches by issuing within the region. ADB is the trustee of CGIF and holds in trust and manages all CGIF’s capital. CGIF finances its operations solely from capital contribution and is not allowed to borrow from any source, except for cash management.

As of June 2014, CGIF’s maximum guarantee capacity (MGC) was about US$1.7 billion. The MGC is 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. CGIF had provided credit guarantee services to two issuers, worth in total US$123 million as of June 2014, or about 7% of the MGC.

CGIF’s strong business profile reflects its business platform which is adequately structured to support policy objectives and functions. CGIF’s competitive edges are in providing services for cross border transactions or for issuers tapping bond markets in countries with high credit spreads.

CGIF’s guarantee portfolio is expected to comprise bonds with credit risks comparable to the international-scale rating categories of “BB” to “BBB”, relatively in line with TRIS Rating’s investment-grade ratings. Eligible long-term securities for investments must have international-scale ratings above “AA-”.

The average international-scale rating of CGIF’s contributors weighted by percentage of contributions is “AA-”. An international-scale rating of “AA-” is considered higher than the national-scale rating of “AAA” assigned by TRIS Rating. TRIS Rating views that CGIF’s objectives and functions play a strategically important role and provide joint benefits for the ASEAN+3 countries in promoting transactions and stability in the regional bond markets.

In TRIS Rating’s view, it should remain a challenge for CGIF over the next 3-5 years to operate under the dynamic and developing stage of the regional bond market integrations, as well as amid competitive domestic bond markets. In addition, CGIF expects to reach its MGC within the next three years. At the moment, it remains undecided whether once the MGC is reached, CGIF’s contributors will agree to inject more capitals, increase the leverage ratio, or cap CGIF’s business scale at that level.

TRIS Rating's base-case expects CGIF's total revenue to increase from US$8.1 million in 2013 to about US$20-US$22 million in 2016. The growth in revenue is expected to be driven by an increase in the guaranteed amounts to reach the MGC at US$1.7 billion in 2016. Another key revenue driver is a rise in guarantee rates as CGIF's services are expected to cover issuers with more diverse ratings. TRIS Rating's base-case also expects CGIF's net profits to rise from US$3 million in 2013 to about US$13 million in 2016.

Under the worst-case scenario, TRIS Rating estimates CGIF's capital adequacy ratio to stay in a range of 3-4 times, adequately covering total payouts to insured bondholders of defaulted issuers. At the end of 2013, CGIF's investment portfolio was invested with maturities up to four years with an average effective duration of 1.1 years. CGIF estimated that a parallel 1% upward shift in the yield curve at the portfolio level is estimated to increase an unrealized loss of about US$7.8 million, or about 1% of its capital as end of 2013.

CGIF's liquidity profile is very strong. Investment assets are in short-term bonds. Cash inflows from investments and guarantee fees are estimated to cover cash outflows for operating expenses over the next 12 months. Under the worst-case scenario, CGIF's liquid assets should continue to adequately cover total payouts to insured bondholders of defaulted issuers. In addition, CGIF is allowed to engage in the repurchase transactions for liquidity management.

Rating Outlook

The "stable" outlook reflects an expectation that CGIF will continue to expand its operations in line with its missions and risk management framework. The rating could face a downward pressure if the level of supports from the contributors or the contributors' creditworthiness decline materially.

Credit Guarantee and Investment Facility (CGIF)

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Rating Outlook:	Stable

Key Financial Statistics

Unit: US$ million

	-------- Year Ended 31 December -----		
	2013	2012	2011
Interest income on investment	7.6	8.0	7.1
Income from guarantee	0.4	0.0	0.0
Total revenue	8.1	8.0	7.5
Net income from operations	2.7	4.1	6.2
Total assets	718.0	714.7	687.6
Total liabilities	2.7	0.8	1.0
Shareholders' equity	715.2	713.9	686.6

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