PEFINDO
CREDIT RATING AGENCY

Rating Rationale

Credit Guarantee and Investment Facility

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CREDIT PROFILE

Financial Strength Rating *idAAA/Stable*

Rated Issues
-

Rating Period
July 29, 2019 – July 1, 2020

Rating History
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FINANCIAL HIGHLIGHTS

as of / for the years ended	**Mar-2019** (Unaudited)	**Dec-2018** (Audited)	**Dec-2017** (Audited)	**Dec-2016** (Audited)
Total assets [USD Mn]	986.0	957.8	779.1	772.0
Total equity [USD Mn]	926.1	911.0	739.2	727.5
Total investment [USD Mn]	923.0	904.6	733.4	726.2
Net premium written [USD Mn]	2.4	7.3	6.9	7.5
Net Claims [USD Mn]	0.0	0.0	0.0	0.0
Underwriting Result [USD Mn]	2.4	7.3	6.9	7.5
Net income after tax [USD Mn]	5.8	16.9	10.8	10.1
Total Comprehensive Income [USD Mn]	15.1	15.7	8.7	5.0
ROAA [%]	*2.4	1.9	1.4	1.3
Loss Ratio [%]	0.0	0.0	0.0	0.0
Net Written Premium / Equity [x]	0.0	0.0	0.0	0.0
Retention Ratio [%]	69.9	74.2	75.9	93.3
Equity / Total Asset [%]	93.9	95.1	94.9	94.2
Capital Adequacy Ratio [%] **	22.9	26.8	24.3	25.3
USD exchange rate [USD/IDR]	14,240	14,380	13,473	13,795

**Annualized ** The CAR ratio is similar to banks*
The above ratios have been computed based on information from the company and published accounts. Where applicable, some items have been reclassified according to PEFINDO's definitions.

Credit Guarantee and Investment Facility (CGIF) rated idAAA with stable outlook

PEFINDO has assigned its "**idAAA**" financial strength rating to Credit Guarantee and Investment Facility (CGIF). The outlook for the rating is "**stable**".

A guarantee provider rated idAAA has superior financial security characteristics relative to other companies in Indonesia. "idAAA" is the highest guarantee provider financial strength rating given by PEFINDO.

The rating reflects CGIF's strong support from the shareholders, important mandate to develop regional bond markets, superior capitalization profile, superior liquidity position and financial flexibility, and conservative underwriting criteria. The rating is constrained by its moderate operating performance.

The rating may be lowered if there is evidence of CGIF losses or a significant reduction of its bond market developmental mandate. A material decline of shareholder support could also put downward pressure on the rating. The rating could also be under pressure due to significant deterioration in financial performance, as it may result in key shareholders being less inclined to provide capital support. However, we consider those scenarios highly unlikely in the foreseeable future.

CGIF was established in November 2010 as a key component of the Asian Bond Market Initiative (ABMI), to promote economic development and financial stability by developing local currency regional bond markets in the ASEAN region. This mandate was given by contributing members consisting of ASEAN + 3 governments (People's Republic of China, Japan, and Republic of Korea) and the Asian Development Bank (ADB). CGIF was established as a trust fund of the ADB (rated AAA/Stable by Standard and Poor's), meaning that although it is operationally and financially separated from ADB, it is not a separate legal entity apart from it. CGIF's headquarter is in Manila, the Philippines, and its operations were supported by 50 employees as of March 2019 (1Q2019).

Supporting factors for the above rating are:

- ***Strong shareholder support.*** CGIF's shareholders, commonly called contributors, provided USD700 million in paid-in capital at its establishment, and have authorized another USD500 million capital increase by FY2017, of which USD300 million is expected to be received by end-July 2019, and the rest gradually by end-2023. The capital injection is to support CGIF's operation expansion to increase the number of guarantee deals and ultimately further strengthen the development of local bond markets in ASEAN member countries. Similar to ADB, CGIF also enjoys privileges and immunities from local jurisdictions and regulations, such as tax exemption, exemption of seizure of assets, archives, and exemption of moratoria of any nature. Such stipulations reinforce the view of strong support from the contributors to CGIF. Although its existence is subject to review every 10 years, given the plans for larger operations and authorization for capital increase, PEFINDO is of the view that a review that will result in termination is highly unlikely.
- ***CGIF's important mandate to develop regional bond markets.*** CGIF has a unique capacity in carrying out its mandate, in which it is the only multilateral institution in the ASEAN region to provide guarantee services in the local currency. In that way, it helps credible bond issuers tap into regional bond markets, including cross-border issuances in other ASEAN nations apart from the issuer's home country. We are of the view that its services are essential to the development of bond markets in the region, which was made a key initiative by ASEAN+3 governments through the establishment of ABMI. The development of local bond markets should promote economic development and financial resiliency, strengthening the depths of both issuer and buyer sides in ASEAN. CGIF has gradually increased its presence in ASEAN, as reflected by positive growth in the number of transactions over the years. It has also increased its developmental role to ASEAN countries such as Cambodia, Laos, and Myanmar, which have not yet established adequate bond market structures. We note that the number of guarantee transactions has been relatively low, given

the complexity of regulatory requirements that must be satisfied by issuers in each country, pricing issues, and CGIF's stringent underwriting practices and social and environmental implementation policies.

- ***Superior capitalization profile***. PEFINDO is of the view that CGIF has superior capitalization, as reflected by its gearing ratio, measured by gross guarantee amount over total equity, at 1.8x as of 1Q2019, and 1.5x during 2016–2018, which is considered very low. Internally, with net guarantee amount exposure being regulated in its articles of agreement (point 6.1) through its maximum guarantee capacity (MGC) at 2.5:1 of its adjusted capital, being adjusted for credit loss, foreign exchange risk, and illiquid investments, we are of the view that CGIF should maintain a superior capitalization profile, having taken into account its projected bond guarantee portfolio growth in the medium term. As of 1Q2019, its net gearing ratio (leverage ratio) was very low at 1.3x. The recent capital increases and the future realization of a capital increase of USD500 million should allow for an increase of guarantee exposure without greatly increasing its credit risk exposure. CGIF also maintains a capital adequacy ratio (CAR) similar to banks, which also incorporates the concentration risk of the bond guarantee portfolio in addition to the typical credit, market, and operational risk weightings. The CAR calculation was reported at 22.9% as of 1Q2019 and 26.8% in FY2018, much higher than its internal minimum requirement of 8.8%.
- ***Superior liquidity position and financial flexibility***. As CGIF's investments are in the form of high quality government institution and corporate bonds and bank time deposits, we are of the view that it has superior liquidity to handle potential claims that may arise. The investment portfolio, consisting of highly-rated bonds and time deposits (excluding cash and cash equivalents), was reported at USD923.0 million as of 1Q2019 and USD904.6 million as of FY2018, which provides a very strong buffer to cover more than half of its bond guarantee amount if there are any claims. The gross guarantee amount was USD1.7 billion in 1Q2019 and USD1.4 biillion in FY2018. Liquid assets accounted for 93.6% of total assets in 1Q2019, and have been consistent at above 90% during the years under review. We are of the view that linkage to ADB is beneficial if it needs to conduct additional fundraising activities, in case it is deemed necessary.
- ***Conservative underwriting criteria.*** CGIF adopts conservative underwriting criteria, having established an internal risk rating criteria similar to the international rating scale of a rating agency. The underwriting process must go through the Guarantee and Investment Committee for approval, and also to the Board of Directors if it reaches a certain threshold. It is also reflected by the fact that no claims have been called since it began its operations in 2012. Furthermore, it has also established risk mitigation measures against a claim, such as requiring collaterals including fixed assets. Moreover, although individual guarantee deals are allowed as low as B to accommodate issuers from Cambodia, Laos, and Myanmar, and overal risk rating at BB-, those exposures are safeguarded by limits that are in place, such as country industry limits (each set at 20%), and the currency limit (40%). In addition, any exposure beyond the MGC limit of 2.5x capacity has to be reinsured.

The rating is constrained by:

- ***Moderate operating performance***. As CGIF is not a profit maximization entity, given its developmental mandate, operating performance is not the highest priority, although making a profit is necessary to maintain and expand operations to support the mission and vision of contributing member governments and the ADB. PEFINDO is of the view that it has a moderate operating performance, with a combined ratio projection to remain high at above 95.0% in the near to medium term. This is in line with its historical figures of 100.0%, 115.9%, and 103.7% in 1Q2019, FY2018, and FY2017, respectively. A combined ratio at 100% or above means that guarantee fees alone are not sufficient to sustain operations, thus it must rely on investment income. Given its role, CGIF has to maintain a competitive guarantee fee on average of 1.0%. The required compliance to environmental and social safeguard standards has also put limitations on certain businesses and industries that may be accepted by CGIF's criteria, limiting the number of transaction opportunities.