PEFINDO
CREDIT RATING AGENCY

Rating Rationale

Credit Guarantee and Investment Facility

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CREDIT PROFILE

Financial Strength Rating *idAAA/Stable*

Rated Issues
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Rating Period
July 1, 2020 – July 1, 2021

Rating History
JUL 2019 *idAAA/Stable*

FINANCIAL HIGHLIGHTS

as of / for the years ended	**Mar-2020** (Unaudited)	**Dec-2019** (Audited)	**Dec-2018** (Audited)	**Dec-2017** (Audited)
Total assets [USD Mn]	1,297.8	1,255.1	957.8	779.1
Total equity [USD Mn]	1,217.7	1,178.4	911.0	739.2
Total investment [USD Mn]	1,217.8	1,176.2	904.6	733.4
Net premium written [USD Mn]	3.8	11.2	8.0	7.5
Net Claims [USD Mn]	0.0	0.0	0.0	0.0
Underwriting Result [USD Mn]	3.8	12.1	8.0	7.5
Net income after tax [USD Mn]	6.5	23.2	16.9	10.8
Total Comprehensive Income [USD Mn]	39.3	49.0	15.7	8.7
ROAA [%]	*2.1	2.1	1.9	1.4
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 [%]	78.5	77.1	81.3	82.5
Equity / Total Asset [%]	93.8	93.9	95.1	94.9
Capital Adequacy Ratio [%] **	28.5	29.5	24.3	25.3
USD exchange rate [USD/IDR]	16,367	13,901	14,380	13,473

**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, strong liquidity position, and conservative underwriting criteria. The rating is constrained by its moderate operating performance.

The rating may be lowered if there is evidence of CGIF losing its bond market developmental mandate, or a significant reduction of the 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 these scenarios highly unlikely in the foreseeable future.

PEFINDO is of the view that the impact of COVID-19 on CGIF's overall credit profile will remain manageable, considering its strict underwriting criteria and risk management measures. It also has a strong liquidity profile supported by its majority investment in high-rated marketable securities. However, we also take into consideration its significant exposure to the manufacturing sector at 27.4% of its portfolio as of 1Q2020, as we view the sector to be directly impacted by the pandemic. Significant business or financial deterioration in this manufacturing portfolio could potentially result in sizable claims. We will closely monitor the industry and CGIF's performance during the pandemic, particularly in regard to its business risk profile and impact on its financial position.

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 (China, Japan, and Republic of Korea) and the Asian Development Bank (ADB). It 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 separate from ADB, it is not a separate legal entity. Its headquarters are in Manila, the Philippines, and its operations were supported by 56 employees as of March 2020 (1Q2020).

Supporting factors for the above rating are:

- ***Strong shareholder support.*** CGIF shareholders (contributors) fully support it by regularly providing capital injections, strengthening its paid-in capital to USD1.1 billion as of 1Q2020. The injections support its operation expansion to increase the number of guarantee deals, guarantee capacity, and ultimately further strengthen the development of local bond markets in ASEAN member countries. Similar to ADB, it enjoys privileges and immunity 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. 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 resulting in termination is highly unlikely.
- ***CGIF's important mandate to develop regional bond markets.*** CGIF has a unique capacity in carrying out its mandate to provide guarantee services in the local currency. 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 ASEAN bond markets, 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. It 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, where bond market transactions are still at the nascent stage. We note 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 projects CGIF's capitalization profile to remain superior in the near to medium term supported by its sizeable equity, profit accumulation, and no dividend payment history. As of 1Q2020, its total gearing ratio, the calculation of gross guarantee amount over total equity, was 1.4x and 1.8x in 1Q2020 and FY2019, which is very low. Internally, with net guarantee amount exposure 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 it should maintain a superior capitalization profile, having taken into account its projected bond guarantee portfolio's moderate growth in the medium term. As of 1Q2020, its net gearing ratio (leverage ratio) was very low at 1.4x. It 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. Its CAR was 29.5% as of 1Q2020 and 28.5% in FY2019, much higher than its internal minimum requirement of 8.8%.
- ***Strong liquidity position.*** CGIF's liquidity position, in our view, will continue to remain strong, provided it maintains a substantial portion of liquid assets in its balance sheet in the medium term. As its investments are in the form of high quality government institutions 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 bonds and time deposits (excluding cash and cash equivalent), was USD1.22 billion as of 1Q2020 and USD1.18 billion as of FY2019, which provides a very strong buffer to cover more than half of its bond guarantee amount if there are any claims. CGIF's gross guarantee amount at FY2019 and 1Q2020 are USD2.09 billion and USD2.12 billion, respectively. Liquid assets accounted for 93.8% of total assets in 1Q2020, and have been consistent at above 90% during the years under review.
- ***Conservative underwriting criteria.*** We are of the view that CGIF implements conservative underwriting criteria in assessing a guarantee proposal. Its credit guarantee process is strict and tiered, and all guarantee applicants must pass a series of rigorous assessments related to the business and financial performance. It uses an internal risk rating score similar to the international rating scale of a rating agency. The underwriting process must go through its guarantee and investment committee for approval, and also the board of directors. This is also reflected by the fact that no claims have been called since it began operations in 2012. It has also established risk mitigation measures against claims, such as requiring collateral including fixed assets. Although individual guarantee deals are allowed as low as B range to accommodate issuers from Cambodia, Laos, and Myanmar, and overall weighted average risk rating at BB, those exposures are safeguarded by the prudential limits in place such as country limits, industry limits (each set at 20% of MGC), and currency limits (40% of MGC). 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 its combined ratio projection to remain high at above 85.0% in the near to medium term, in line with its historical figures in the past few years. The projection has incorporated the adaptation to the new normal after COVID-19, which should lower expenses related to business travel. A combined ratio of 85% or above means guarantee fees alone are not sufficient to sustain operations, thus it must rely on investment income. Given its role, it has to maintain a competitive guarantee fee on average of 1.0%. In addition to its conservative underwriting criteria, the required compliance to environmental and social safeguard standards also puts limitations on supporting certain activities, limiting the number of transaction opportunities.