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 1, 2021 – July 1, 2022

Rating History

JUL 2020	*idAAA/Stable*
JUL 2019	*idAAA/Stable*

FINANCIAL HIGHLIGHTS

as of / for the years ended	**Mar-2021** (Unaudited)	**Dec-2020** (Audited)	**Dec-2019** (Audited)	**Dec-2018** (Audited)
Total assets [USD Mn]	1,342.2	1,351.7	1,255.1	957.8
Total equity [USD Mn]	1,257.0	1,264.5	1,178.4	911.0
Total investment [USD Mn]	1,266.3	1,270.3	1,176.2	904.6
Net Guarantee Fee [USD Mn]	4.1	15.6	11.2	8.0
Net Claims [USD Mn]	0.0	0.0	0.0	0.0
Underwriting Result [USD Mn]	4.1	16.4	12.1	8.0
Net income after tax [USD Mn]	8.3	24.0	23.2	16.9
Total Comprehensive Income [USD Mn]	***(10.5)	61.5	49.0	15.7
ROAA [%] *	2.5	1.8	2.1	1.9%
Loss Ratio [%]	0.0	0.0	0.0	0.0%
Net Guarantee Fee / Equity [x]	0.0	0.0	0.0	0.0
Retention Ratio [%]	78.6	78.7	77.1	81.3
Equity / Total Asset [%]	93.7	93.6	93.9	95.1
Capital Adequacy Ratio [%] **	30.7	29.7	29.5	26.8
USD exchange rate [USD/IDR]	14,525	14,105	13,901	14,380

**Annualized ** The CAR ratio is similar to banks*
****due to the reduction of unrealized gain in investment portfolio from USD52.8 million in FY2020 to USD34.0 million in 1Q2021.*
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 those of other companies in Indonesia. idAAA is the highest guarantee provider financial strength rating assigned 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 weakening of the mandate. A material weakening of shareholder support may also exert downward pressure on the rating. The rating may 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 as highly unlikely in the foreseeable future.

PEFINDO is of the view that the impact of the Covid-19 pandemic 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 as the majority of its investment is in low-risk marketable securities. However, we also take into consideration its significant exposure to the manufacturing sector at 26.1% of its portfolio as of March 31, 2021, as we view the sector to be highly impacted by the pandemic. Significant business or financial deterioration in this portfolio may potentially result in a substantial claim.

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 extended by contributing members, consisting of ASEAN+3 governments (China, Japan, and the 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. It is headquartered in Manila, the Philippines, and its operations were supported by 60 employees as of March 2021 (1Q2021).

Supporting factors for the above rating are:

- ***Strong shareholder support.*** PEFINDO expects CGIF to continue to be supported by its shareholder given its important mission to develop the ASEAN bond markets. CGIF shareholders (contributors) regularly provide capital injections, strengthening CGIF's paid-in capital to USD1.1 billion as of 1Q2021 with the near-term target reaching USD1.2 billion by the end of 2023. This regular injection underpins its business expansion by increasing the number of guarantee deals as well as guarantee capacity, which will ultimately further strengthen the development of local bond markets in ASEAN member countries. As is the case with the ADB, it is also granted 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, hence emphasizing the view of the strong support from the contributors. Although its existence is subject to review every 10 years, given the plans for larger-scale operations and authorization for capital increase, PEFINDO considers that a review resulting in termination is most unlikely.
- ***CGIF's important mandate to develop regional bond markets.*** PEFINDO is of the view that CGIF has important role in developing local bonds market in ASEAN countries particularly by providing guarantees to the first-time issuer, cross-border transactions, and innovative instruments. The objective of developing local bond markets is to promote economic development and financial resilience, notably during the pandemic, thereby strengthening the depths of both issuer and buyer sides. It has gradually

expanded its presence, as reflected in the positive growth of the number of transactions and new accomplishments over the years. Its latest milestone includes its services in guaranteeing Cambodia's bond currency in 2020 and green bond in 2021. We expect CGIF to continue its role to promote local bonds development in ASEAN countries, especially in Brunei Darussalam, Cambodia, Laos, and Myanmar, as the bond market transactions in these countries are still at the nascent stage

- ***Superior capitalization profile***. PEFINDO projects CGIF's capitalization profile to remain superior in the near to medium term, underpinned by its sizeable equity, regular capital injection, profit accumulation, and no dividend payment. We expect that the regular capital injection from its contributors to continue in the medium term, following the pledge declared in 2017 from its contributors to achieve a paid-in capital of USD1.2 billion by the end of 2023. Furthermore, its total gearing ratio, the calculation of gross guarantee amount over total equity, was low at 1.7x and 1.8x in 1Q2021 and FY2020. Internally, the net guarantee exposure as regulated in its articles of agreement (point 6.1) through its maximum guarantee capacity (MGC) is set at 2.5:1 of its adjusted capital, being adjusted for credit loss, foreign exchange risk, and illiquid investments. Accordingly, we are of the view that it should maintain a superior capitalization profile, taking into account its moderate growth in the medium term. CGIF also maintains a capital adequacy ratio (CAR), as is the case with 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 30.7% as of 1Q2021 and 29.7% in FY2020, well above its internal minimum requirement of 8.8%.
- ***Strong liquidity position.*** Given that CGIF investments are in the form of high-quality government institutions, corporate bonds, and bank time deposits, we view it has strong liquidity capacity in handling potential claims that may arise. The investment policy of CGIF is strict, allowing investment only in debt instruments with a minimum rating of AA- (international scale) with a slight exception at A+ for debt instruments related to its contributor countries. The investment portfolio, consisting of bonds and time deposits (excluding cash and cash equivalent), amounted to USD1.27 billion as of 1Q2021 and FY2020, providing an adequate buffer to cover more than half of its bond guarantee amount in case of claims. CGIF's gross guarantee including coupons amounted to USD2.30 billion in 1Q2021 and USD2.31 billion in FY2020. Its liquid assets accounted for 94.3% of its total assets in 1Q2021, consistently 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 applies an internal risk rating score and the underwriting process must pass through its guarantee and investment committee for approval, as well as the board of directors. Following such a process, no claims have been called since it commenced 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 up to a B range being the lowest to accommodate issuers from Brunei Darussalam, 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).

The rating is constrained by:

- ***Moderate operating performance***. PEFINDO is of the view that CGIF's operating performance will remain moderate in the medium term, mainly due to the burden of the competitive guarantee fee it offers to clients. Given its developmental role, CGIF has historically maintained a low guarantee fee, averaging below 1.4% over the past five years (2016-2020). In addition, CGIF does not place operating performance as its highest priority, while generating profit is necessary to maintain and expand operations to support the mission and vision of contributing member governments and the ADB. Its combined ratio is projected to remain high of 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 business during the pandemic, including cut in expenses related to business travel. In addition to its conservative underwriting criteria, the required compliance with environmental and social safeguard standards also constrains certain income-generating activities, limiting the number of transaction opportunities.