Rating Rationale

Credit Guarantee and Investment Facility

Credit Rating(s)

Financial Strength	${}_{id}$AAA/Stable

Rating Period

July 17, 2023 – July 1, 2024

Published Rating History

JUL 2022	${}_{id}$AAA/Stable
JUL 2021	${}_{id}$AAA/Stable
JUL 2020	${}_{id}$AAA/Stable
JUL 2019	${}_{id}$AAA/Stable

PEFINDO has assigned its "${}_{id}$AAA" financial strength rating with stable outlook to Credit Guarantee and Investment Facility (CGIF). The rating mainly reflects the very strong likelihood of support from Asia Development Bank (ADB). The rating is not driven by CGIF's standalone credit profile, which reflects its important mandate to develop regional bond markets, superior capitalization profile, very strong liquidity position, conservative underwriting criteria, as well as its moderate operating performance.

The rating may be lowered if there is a strong indication of significant decline of shareholder support, which may be indicated by CGIF's weakening role in developing corporate bonds mandate or substantial deterioration in CGIF's financial performance without evidence of support from ADB.

CGIF was established in November 2010 as a critical 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, meaning that despite 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 2023.

Financial Highlights

As of/for the year ended	Mar-2023 (Unaudited)	Dec-2022 (Audited)	Dec-2021 (Audited)	Dec-2020 (Audited)
Total Asset [USD Mn]	1,330.5	1,305.0	1,372.8	1,351.7
Total Equity [USD Mn]	1,253.6	1,223.2	1,292.4	1,264.5
Total Investments [USD Bn]	1,216.4	1,182.3	1,214.8	1,270.3
Net Guarantee Fee [USD Mn]	4.5	16.8	17.3	15.6
Net Claims [USD Mn]	0.0	0.0	0.0	0.0
Underwriting Result [IDR Bn]	6.3	1.3	17.4	6.9
Net Income After Tax [IDR Bn]	12.0	13.8	29.8	24.0
Total Comprehensive Income [USD Mn]	30.2	***(81.0)	***(6.9)	61.5
ROAA [%]	*3.6	1.0	2.2	1.8
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 [%]	75.7	71.0	76.5	78.7
Equity / Total Assets [%]	94.2	93.7	94.1	93.6
Capital / Capital Charge [x] **	4.4	4.4	4.3	3.9
USD exchange rate [USD/IDR]	15,062	15,731	14,269	14,105

**Annualized*

***CGIF capital divided by capital charge based on credit risk, market risk, operational risk, and granularity adjustment.*

****Negative comprehensive income due to unrealized losses in CGIF's portfolio given the US interest rate movement.*

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.

Rating Definition

A guarantee provider rated ${}_{id}$AAA has superior financial security characteristics relative to those of other companies in Indonesia. ${}_{id}$AAA is the highest guarantee provider financial strength rating assigned by PEFINDO.

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Key Strengths

Very strong likelihood of support from ADB

PEFINDO is of the view there is a very strong likelihood of support from ADB, given CGIF's unique mandate to develop the bond market in the ASEAN region by providing guarantees related to specific transactions, such as to the first-time issuer, cross-border transactions, and new instruments. Accordingly, we expect its shareholders to continue their strong support for CGIF regarding the regulatory framework, operation assistance, strong oversight, and regular capital injection. The latter is essential to bolster CGIF's business expansion by increasing the number of guarantee deals and capacity, which will further strengthen the development of local bond markets. The objective of developing local bond markets is to promote economic development and financial resilience, thereby strengthening the depths of both the issuer and buyer sides. As of 1H2023, CGIF has gradually expanded its presence, with a total of 58 bond guarantees since its inception in 2010.

Superior capitalization profile

PEFINDO expects CGIF's capitalization profile to remain superior in the medium term, considering its moderate growth strategy in the medium term. It is bolstered by its sizeable total equity amount of USD1.3 billion as of 1Q2023, capital injections, and profit accumulations without dividend payment. Its low leverage ratio is reflected from the total gearing ratio, which calculated from gross guarantee amount over total equity was conservative at 1.8x in 1Q2023 and 1.9x in FY2022, below its internal limit of maximum guarantee capacity (MGC) of 2.5x. In addition, CGIF also maintains a capital-to-capital charge ratio, with the latest figure of 4.4x as of 1Q2023 and FY2022 compared to 4.3x in FY2021, well above its internal threshold of 1.1%.

Very strong liquidity position

CGIF's liquidity position is very strong, mainly underpinned by its high amount of liquid assets in the form of high-quality instruments comprised of government bonds, corporate bonds, and bank time deposits. The investment portfolio, consisting of bonds and time deposits (excluding cash and cash equivalent), amounted to USD1.2 billion as of 1Q2023, providing a more than adequate buffer to cover more than half of its bond guarantee amount recorded at USD2.18 billion in 1Q2023 (including coupons) in case of claims. In addition, realized guarantee called has been low since CGIF's establishment, with only one defaulted case amounting to USD62 million net of reinsurance portion. Moreover, its liquid assets to total assets ratio has been consistently maintained at above 80% during the years under review, with the latest figure of 91.4% in 1Q2023. We note CGIF's conservative investment policy, allowing investment only in highly rated debt instruments. Accordingly, we view CGIF has a strong liquidity capacity in handling potential claims that may arise.

Conservative underwriting criteria

Our assessment of CGIF's conservative underwriting criteria is mainly derived from its strict and tiering credit guarantee process, including a series of rigorous assessments related to the business and financial performance. After the deals, CGIF regularly monitors the financial covenants as well as the collaterals, which are required in some cases. The guarantee exposure is also 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). It is reflected by a very rare claim, as out of 58 guarantee transactions since its inception in 2010, CGIF has only had one defaulted bond in November 2021 of USD83 million (net exposure of USD62 million post reinsurance), which was promptly settled in December 2021.

Key Weakness

Moderate operating performance

PEFINDO views that CGIF's operating performance is likely to remain moderate in the near to medium term, burdened by its relatively high operating expense compounded with a substantial provision expense. CGIF's operation covers the ASEAN region, and we expect operating expenses to escalate in the near term in the post-pandemic era, including for travel and personnel expenses. In addition, despite there are reversal provision expenses of USD1.8 million in 1Q2023 which leads to a lower combined ratio of 30.0%, we expect that its combined ratio may resurge and stay at 85%-95% level due to the need to allocate higher provision expenses considering the protracted recovery of default account and deterioration in quality from some of CGIF watchlist accounts. CGIF recorded a high provision expense of USD16.2 million in FY2022, leading to a sharp increment in its combined ratio to 150.3% in 2022 from 61.9% in 2021. Furthermore, its guarantee fee payment scheme is also paid periodically by its clients, unlike other commercial guarantors or insurers that ask for an upfront payment. Accordingly, its combined ratio is projected to remain high at 85%-95% in the near to medium term, in line with its historical figures in the past few years.

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