PEFINDO
CREDIT RATING AGENCY

Rating Rationale

Credit Guarantee and Investment Facility

Credit Rating(s)

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

Rating Period

July 23, 2024 – July 1, 2025

Published Rating History

JUL 2023	${}_{id}$AAA/Stable
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 a stable outlook to Credit Guarantee and Investment Facility (CGIF). The rating mainly reflects the very strong likelihood of support from Asia Development Bank (ADB). CGIF's standalone credit profile 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 a significant decline in 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 being 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 2024 (1Q2024).

Financial Highlights

As of/for the year ended	Mar-2024 (Unaudited)	Dec-2023 (Audited)	Dec-2022 (Audited)	Dec-2021 (Audited)
Total Asset [USD Mn]	1,387.9	1,387.4	1,305.0	1,372.8
Total Equity [USD Mn]	1,299.0	1,302.5	1,223.2	1,292.4
Total Investments [USD Bn]	1,261.9	1,261.6	1,182.3	1,214.8
Net Guarantee Fee [USD Mn]	4.5	16.8	16.8	17.3
Net Claims [USD Mn]	0.0	0.0	0.0	0.0
Underwriting Result [IDR Bn]	2.0	23.4	1.3	17.4
Net Income After Tax [IDR Bn]	3.0	44.0	13.8	29.8
Total Comprehensive Income [USD Mn]	***(3.5)	70.1	***(81.0)	***(6.9)
ROAA [%]	0.9	3.3	1.0	2.2
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 [%]	69.3	68.1	71.0	76.5
Equity / Total Assets [%]	93.6	93.9	93.7	94.1
Capital / Capital Charge [x] **	4.6	4.6	4.4	4.3
USD exchange rate [USD/IDR]	15,853	15,416	15,731	14,269

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 that 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 or thematic instruments. We view that this mandate is also in line with ADB's agenda to strengthen local bond development and reduce the impact of global liquidity shocks. Given its important mandate, we expect ADB to continue its 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, further strengthening local bond market development. Developing local bond markets aims to promote economic growth and financial resilience, thereby strengthening the depths of both the issuer and buyer sides. As of 1H2024, CGIF has gradually expanded its presence, with 76 bond guarantees since its inception in 2010. As a trust fund of ADB, CGIF has the same benefits as ADB in terms of tax benefits and being exempted from rules and regulations in the countries it operates.

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 1Q2024, regular capital injections, profit accumulations, and no dividend payment policy. Its low leverage ratio is reflected in the total gearing ratio (gross guarantee amount over total equity) which was conservative at 1.8x in 1Q2024 and FY2023, below its internal limit of maximum guarantee capacity (MGC) of 2.5x. Moreover, CGIF also maintains a capital-to-capital charge ratio, with the latest figure of 4.6x as of 1Q2024 and FY2023 compared to 4.4x in FY2022, well above its internal threshold of 1.1x.

Very strong liquidity position

We view that CGIF has a very strong liquidity position, mainly backed by its high amount of liquid assets in the form of high-quality investments. CGIF's investment comprised high-quality instruments such as government and corporate bonds with the minimum global rating of A+, as well as time deposits. The investment portfolio, consisting of bond and time deposits (excluding cash and cash equivalent), amounted to USD1.3 billion as of 1Q2024, providing a more than adequate buffer to cover more than half of its bond guarantee amount recorded at USD2.12 billion as of 1Q2024 (including coupons) in case of claims. Furthermore, called guarantees have been low since CGIF's establishment, with only two cases amounting to USD108 million, equal to 8.8% of its total equity. CGIF's liquid assets to total assets ratio has been consistently high above 80% during the years under review, with the latest figure of 90.9% in 1Q2024. 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 evaluations related to the business and financial performance. In addition, prospective clients must also comply with the ESG assessment conducted by CGIF using international standards adopted from ADB. After the deals, CGIF regularly monitors the financial covenants and the collaterals, which are required in some cases. The guarantee exposure is also safeguarded by the prudential limits, such as country limits, industry limits (each set at 20% of MGC), and currency limits (40% of MGC).

Key Weakness

Moderate operating performance

PEFINDO views that CGIF's operating performance will remain moderate in the near to medium term, burdened by its relatively high operating expenses and a substantial provision expense. CGIF's operation covers the ASEAN region, and we expect operating expenses to increase in the near term, particularly from personnel expenses to support business expansion. In addition, the increasing provision expenses will likely come from the guarantee calls in April 2024, in which the recovery is still ongoing. As of 1Q2024, CGIF recorded a high provision expense of USD3.0 million compared to reversal provision expenses of USD6.8 million in FY2023, leading to a sharp increment in its combined ratio to 120.0% in 1Q2024 from 27.4% in 2023. Another factor is the challenging global economic conditions, as reflected in the high-interest environment and local currency depreciation, which may lead to increasing credit risks and provision level. Accordingly, its combined ratio is projected to remain high at 90%-100% in the near to medium term, which is in line with its historical figures in the past few years.

Environmental, Social and Governance (ESG) Factors in the Rating Assessment

ESG factors are a neutral consideration in CGIF's credit rating assessment. We view CGIF is indirectly exposed to the ESG risks, stemming from its exposure to bond issuers that operate in various economic sectors. However, as part of ADB group, we view that CGIF has adopted the best international practices to mitigate risks through its safeguard policy, and prospective clients must comply with all the criteria and assessments from CGIF.