Fitch Affirms Credit Guarantee and Investment Facility's IFS Rating at 'AAA(idn)'

Tue 17 Jan, 2023 - 1:56 AM ET

Fitch Ratings - Jakarta - 17 Jan 2023: Fitch Ratings Indonesia has affirmed Credit Guarantee and Investment Facility's (CGIF) National Insurer Financial Strength (IFS) and National Long-Term Ratings at 'AAA(idn)'. The Outlook is Stable.

Fitch believes that CGIF's credit profile is stronger than Indonesia's Long-Term Local-Currency Issuer Default Rating of 'BBB', supporting the assignment of a 'AAA(idn)' National IFS Rating.

'AAA(idn)' Long-Term National Ratings denote the highest ratings assigned by Fitch on its national rating scale for that country. This rating is assigned to issuers or obligations with the lowest expectation of default risk relative to all other issuers or obligations in the same country.

**KEY RATING DRIVERS**

**Leverage to Stay Manageable:** Fitch expects CGIF to judiciously manage its net par/capital leverage ratio - defined as total outstanding guarantee exposure after reinsurance relative to members' equity - as its guarantee portfolio expands. The ratio stood at 1.6x at end-2021, and Fitch expects it to remain at or below 2.0x.
**Moderate Company Profile:** Fitch assesses CGIF's company profile as 'Moderate' due to the 'Moderate' business profile and 'Moderate/Favourable' corporate governance. The 'Moderate' business profile reflects its substantive business, which is offset by its small scale of operation. It also takes into account CGIF's risk appetite, which is in line with its mandate, and somewhat diversified business lines.

**Prudent Investment Strategy:** CGIF invests only in fixed-income securities with maturities of more than one year that are rated at least 'A+' on an international scale for government-related issuers of CGIF contributor countries and 'AA-' for other issuers. Its investments in short-term fixed-income instruments cannot be lower than 'F1' on Fitch's rating scale.

**Operational Linkage with AsDB:** CGIF, a trust fund of the Asian Development Bank (AsDB, AAA-Stable), benefits from its affiliation with AsDB and shares AsDB's multilateral supranational status. CGIF continues to manage cautiously its guarantee operations by adopting prudent operational policies and adhering to its risk-management framework.

**High-Risk Insured Portfolio:** Fitch expects the company to maintain prudent underwriting in light of the business focus on a high-risk insured portfolio. CGIF's insured portfolio is exposed to issuers with non-investment-grade ratings, as it provides largely local currency-denominated guarantees on emerging-market Asian debt. CGIF is exposed to volatile credit risks because it guarantees non-investment-grade corporate issuance.

In 2021, one guaranteed bond issuer defaulted on its obligation at bond maturity. The issuer reimbursed CGIF for payments of coupon as well as additional accrued interest from maturity date until the guarantee payment date and legal expenses. CGIF is working with the issuer for the reimbursement of guarantee payments as well as costs and expenses incurred by CGIF subsequent to the guarantee payments. CGIF's fundamental operating profile remains intact, with return on equity of 2.3% in 2021.

**Diversified Ownership Structure:** CGIF's initial capital of USD 700 million was contributed by AsDB and various ASEAN + 3 (China, Japan and South Korea) sovereign nations, several of which are highly rated, and was used to form CGIF to support the development of ASEAN + 3 (China, Japan and South Korea) capital markets. The contributors have committed to raise CGIF's paid-in capital to USD1.2 billion by end-2023.

**RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to negative rating action/downgrade:
- A surge in after-reinsurance notional insured par/capital leverage ratio to consistently higher than 6x;

- Losses in the guarantee portfolio adversely deviating from the company's expectation;

- Material increase in reliance on reinsurance protection for a prolonged period.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- CGIF's ratings are already at the highest possible level and therefore cannot be upgraded.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

<table>
<thead>
<tr>
<th>ENTITY / DEBT</th>
<th>RATING</th>
<th>PRIOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Guarantee and Investment Facility</td>
<td>Natl LT</td>
<td>AAA(idn) Rating Outlook Stable</td>
</tr>
<tr>
<td></td>
<td>AAA(idn) Rating Outlook Stable</td>
<td>Affirmed</td>
</tr>
<tr>
<td></td>
<td>Natl Ins Fin Str</td>
<td>AAA(idn) Rating Outlook Stable</td>
</tr>
<tr>
<td></td>
<td>AAA(idn) Rating Outlook Stable</td>
<td>Affirmed</td>
</tr>
</tbody>
</table>
Fitch Affirms Credit Guarantee and Investment Facility's IFS Rating at 'AAA(idn)'

National
+62 21 4000 0819
jessica.pratiwi@fitchratings.com
PT Fitch Ratings Indonesia
DBS Bank Tower 24th Floor, Suite 2403 Jl. Prof.Dr. Satrio Kav 3-5 Jakarta 12940

Femmy Novaryani
Senior Analyst
Secondary Rating Analyst
National
+62 21 4000 0671
femmy.novaryani@fitchratings.com

Siew Wai Wan
Senior Director
Committee Chairperson
+65 6796 7217
siewwwai.wan@fitchratings.com

MEDIA CONTACTS

Jack Li
Beijing
+86 10 5957 0964
jack.li@thetchgroup.com

Leslie Tan
Singapore
+65 6796 7234
leslie.tan@thetchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 23 Dec 2020)
Insurance Rating Criteria (pub. 15 Jul 2022) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Credit Guarantee and Investment Facility

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is
offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters.

Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the
applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.
Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.