

**CREDIT GUARANTEE AND INVESTMENT FACILITY  
(A Trust Fund of the Asian Development Bank)**

**INDEPENDENT AUDITORS' REPORT  
AND FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
31 DECEMBER 2016 AND 2015**

**CREDIT GUARANTEE AND INVESTMENT FACILITY  
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**

**INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS**

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## INDEPENDENT AUDITOR'S REPORT

### TO THE BOARD OF DIRECTORS OF CREDIT GUARANTEE AND INVESTMENT FACILITY

#### Opinion

We have audited the financial statements of Credit Guarantee and Investment Facility (the "Company"), which comprise the statement of financial position as at 31 December 2016 and the statement of net income, the statement of comprehensive income, statement of changes in members' equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Management is responsible for overseeing the Company's financial reporting process.


## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte & Touche* 

Public Accountants and  
Chartered Accountants  
Singapore

17 April 2017



**CREDIT GUARANTEE AND INVESTMENT FACILITY**  
**(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**  
**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2016 and 2015**  
**Expressed in Thousands of United States Dollars**

	NOTES	2016	2015
<b>ASSETS</b>			
CASH		2,210	3,183
INVESTMENTS	5	725,720	718,272
DERIVATIVE ASSETS	6	465	69
ACCRUED INTEREST INCOME	5	3,324	3,430
GUARANTEE FEE RECEIVABLE	7	38,565	25,533
FURNITURES, FIXTURES AND EQUIPMENT, NET	8	204	207
INTANGIBLE ASSETS, NET	9	502	342
OTHER ASSETS	10	1,012	533
<b>TOTAL ASSETS</b>		<b>772,002</b>	<b>751,569</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>			
<b>LIABILITIES</b>			
GUARANTEE LIABILITY	7	41,804	27,841
UNEARNED INTEREST INCOME - GUARANTEES		167	89
DERIVATIVE LIABILITIES	6	565	-
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	11	1,245	382
OTHER LIABILITIES	12	700	700
<b>TOTAL LIABILITIES</b>		<b>44,481</b>	<b>29,012</b>
<b>MEMBERS' EQUITY</b>			
CAPITAL STOCK			
SUBSCRIBED CAPITAL	13	700,000	700,000
RETAINED EARNINGS		10,082	7,781
RESERVE	14	24,689	16,907
UNREALIZED LOSS IN FAIR VALUES OF AVAILABLE FOR SALE INVESTMENTS	5	(7,250)	(2,131)
<b>TOTAL MEMBERS' EQUITY</b>		<b>727,521</b>	<b>722,557</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>		<b>772,002</b>	<b>751,569</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY**  
**(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**  
**STATEMENT OF NET INCOME**  
**For the years ended 31 December 2016 and 2015**  
**Expressed in Thousands of United States Dollars**

	NOTES	2016	2015
<b>REVENUE</b>			
GUARANTEE FEES		7,698	4,664
INTEREST INCOME	15	10,432	9,268
REALIZED GAIN FROM SECURITIES		509	219
FAIR VALUE CHANGES - DERIVATIVES		(220)	76
MISCELLANEOUS INCOME	16	787	524
<b>GROSS REVENUE</b>		<b>19,206</b>	<b>14,751</b>
<b>EXPENSES</b>			
ADMINISTRATIVE AND OPERATIONAL EXPENSES	17	7,106	5,807
REINSURANCE EXPENSES	18	540	-
FINANCIAL EXPENSES		54	50
MISCELLANEOUS EXPENSES	12	700	700
<b>TOTAL EXPENSES</b>		<b>8,400</b>	<b>6,557</b>
<b>NET OPERATING INCOME</b>		<b>10,806</b>	<b>8,194</b>
LOSS FROM FOREIGN EXCHANGE		(724)	(413)
<b>NET INCOME</b>		<b>10,082</b>	<b>7,781</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY**  
**(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the years ended 31 December 2016 and 2015**  
*Expressed in Thousands of United States Dollars*

	<b>NOTES</b>	<b>2016</b>	<b>2015</b>
NET INCOME		10,082	7,781
OTHER COMPREHENSIVE INCOME			
ITEM THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME:			
UNREALIZED LOSS IN FAIR VALUES OF AVAILABLE FOR SALE INVESTMENTS		(5,118)	(1,723)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>4,964</b>	<b>6,058</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY**  
**(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**  
**STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
**For the years ended 31 December 2016 and 2015**  
**Expressed in Thousands of United States Dollars**

	Subscribed Capital	Retained Earnings	Reserve	Unrealized Loss in Fair Value of AFS	Total Members' Equity
BALANCE, 1 JANUARY 2015	700,000	3,548	13,360	(409)	716,499
NET INCOME FOR THE YEAR	-	7,781	-	-	7,781
ALLOCATION OF PRIOR YEAR INCOME TO RESERVE	-	(3,548)	3,548	-	-
OTHER COMPREHENSIVE LOSS NET UNREALIZED INVESTMENT HOLDING LOSS DURING THE YEAR	-	-	-	(1,723)	(1,723)
<b>BALANCE, 31 DECEMBER 2015</b>	<b>700,000</b>	<b>7,781</b>	<b>16,908</b>	<b>(2,132)</b>	<b>722,557</b>
NET INCOME FOR THE YEAR	-	10,082	-	-	10,082
ALLOCATION OF PRIOR YEAR INCOME TO RESERVE	-	(7,781)	7,781	-	-
OTHER COMPREHENSIVE LOSS NET UNREALIZED INVESTMENT HOLDING LOSS DURING THE YEAR	-	-	-	(5,118)	(5,118)
<b>BALANCE, 31 DECEMBER 2016</b>	<b>700,000</b>	<b>10,082</b>	<b>24,689</b>	<b>(7,250)</b>	<b>727,521</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY**  
**(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**  
**STATEMENT OF CASH FLOWS**  
For the years ended 31 December 2016 and 2015  
Expressed in Thousands of United States Dollars

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
GUARANTEE RELATED INCOME RECEIVED	8,205	4,904
OTHER INCOME RECEIVED	379	324
ADMINISTRATIVE AND OPERATIONAL EXPENSES PAID	(7,166)	(6,559)
FINANCIAL EXPENSES PAID	(54)	(50)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>1,364</b>	<b>(1,381)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
PURCHASES OF INVESTMENTS	(3,161,209)	(5,791,251)
SALES/MATURITIES OF INVESTMENTS	3,147,795	5,782,077
INTEREST RECEIVED ON INVESTMENTS	11,040	11,901
REALIZED GAIN FROM SECURITIES	509	219
REALIZED LOSS/GAIN ON DERIVATIVES	(51)	7
PURCHASE OF FURNITURE, EQUIPMENT, AND INTANGIBLES	(402)	(290)
DISPOSAL OF FURNITURE, EQUIPMENT, AND INTANGIBLES	-	4
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(2,318)</b>	<b>2,667</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(19)</b>	<b>(8)</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(973)</b>	<b>1,278</b>
CASH AT THE BEGINNING OF THE YEAR	3,183	1,905
<b>CASH AT THE END OF THE YEAR</b>	<b>2,210</b>	<b>3,183</b>
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
NET INCOME	10,082	7,781
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
DEPRECIATION AND AMORTIZATION	258	241
INTEREST INCOME ON INVESTMENTS	(10,087)	(9,146)
REALIZED TRADING GAIN	(509)	(219)
LOSS/(GAIN) ON DERIVATIVES	220	(76)
LOSS/(GAIN) ON DISPOSAL OF ASSET	2	(1)
BAD DEBTS WRITTEN-OFF	84	-
FX REVALUATION LOSS	19	8
CHANGE IN GUARANTEE FEE RECEIVABLE	(13,032)	(4,801)
CHANGE IN GUARANTEE LIABILITY	13,963	5,342
CHANGE IN UNEARNED INTEREST INCOME	79	78
CHANGE IN ACCOUNTS PAYABLE	11	(61)
CHANGE IN ACCRUED EXPENSES	849	(334)
CHANGE IN MISCELLANEOUS ASSETS	(575)	(193)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>1,364</b>	<b>(1,381)</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY  
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**

**NOTES TO FINANCIAL STATEMENTS  
For the year ended 31 December 2016**

**NOTE 1—GENERAL INFORMATION**

The Credit Guarantee and Investment Facility (CGIF) was established on 12 November 2010. Its main objectives are to promote resilience of the financial markets, and to prevent disruptions to the international financial order, by eliminating currency and maturity mismatches for creditworthy corporations in the region through guarantees to help them access local currency bond markets.

The general principles of organization, management and operations of CGIF are set out in the Articles of Agreement as adopted by the Contributors. The Asian Development Bank (ADB) is the Trustee of CGIF and holds in trust and manages CGIF funds and other property only for the purposes of, and in accordance with the provisions of the Articles of Agreement. Based on the Article 13.2 of the Articles of Agreement of CGIF, the privileges, immunities and exemption accorded to ADB pursuant to the Agreement Establishing the ADB shall apply to (1) the Trustee, (2) the property, asset, archives, income, operations, and transactions of CGIF.

CGIF will be financed solely from capital contributed by member countries and ADB. CGIF will not borrow from any source to finance its operations except for purposes of cash management.

The Contributors in CGIF are the governments of Association of Southeast Asian Nations, People's Republic of China, Japan, Republic of Korea (ASEAN+3) and ADB (see Note 13). Ownership rights are in proportion to capital contributions. The authorized capital of CGIF is US\$700,000,000, divided into 7,000 shares with a nominal value of US\$100,000 each. All such shares are subscribed and fully paid in by the Contributors.

The financial statements were approved by the Board of Directors on 17 April 2017 for presentation to the Meeting of Contributors (MOC) on 23 May 2017. The financial statements are subject to approval at the MOC.

**NOTE 2—APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)**

In the current year, CGIF has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

In December 2014, IASB issued Amendments to IAS 1 *Presentation of Financial Statements* to give some guidance on how to apply the concept of materiality in practice (*Disclosure Initiative*). Key highlights in the amendments are as follows: (1) an entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures; (2) an entity need not provide specific disclosure required by an IFRS if the information resulting from that disclosure is immaterial; (3) separate disclosure for the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be and that will be reclassified subsequently to profit or loss. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The application of these amendments has not resulted in any impact on CGIF's financial statements.

In May 2014, IASB issued Amendments to IAS 16 *Property, Plant and Equipment* to clarify that a depreciation

method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. IASB also issued Amendments to IAS 38 *Intangible Assets* to introduce a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate. The amendments to both standards apply for annual periods beginning on or after 1 January 2016, with earlier application permitted. As CGIF already uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on CGIF's financial statements.

Succeeding paragraphs discuss new and revised IFRSs that have been issued but not yet effective.

In May 2014, IASB issued a new revenue recognition standard which is IFRS 15 *Revenue from Contracts with Customers*. This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the majority of existing revenue recognition standard including IAS 18 *Revenue*. IFRS 15 applies to all contracts with customers except those that are within the scope of other IFRS/IAS such as leases, insurance contracts, financial instruments, certain non-monetary exchanges, and certain put options on sale and repurchase agreements. The core principle of the new revenue model is that an entity recognizes revenue to depict the transfer of the promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Far more prescriptive guidance has been added in the said standard to deal with specific scenarios. Furthermore, this new standard requires extensive disclosures. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with earlier adoption permitted. CGIF anticipate that this new standard will have no material impact on its financial statements.

In November 2009, IASB issued IFRS 9 *Financial Instruments* to introduce new requirements for the classification and measurement of financial assets. It was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2013 to include the new requirements for general hedge accounting. In July 2014, another revised version was issued to include (1) impairment requirements for financial assets and (2) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- all recognized financial assets that are within the scope of IAS 39 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cashflows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cashflows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of the subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss;
- with regard to the measurement of financial liabilities designated as fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss;

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized; and
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

This is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. Based on the analysis of CGIF's financial assets and liabilities as at 31 December 2016 on the basis of the facts and circumstances that exist at that date, the Management has performed a preliminary assessment of the impact of IFRS 9 to the financial statements as follows:

#### Classification and measurement

- Listed redeemable bonds classified as available-for-sale investments carried at fair value as disclosed in Note 5: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the notes in the open market, and the bonds' contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed redeemable bonds will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed redeemable bonds are derecognized or reclassified;
- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

#### Impairment

- Financial assets measured at amortized cost, listed redeemable bonds that will be carried at FVTOCI under IFRS 9 (Note 5) (see classification and measurement section above), and financial guarantee contracts (Note 7) will be subject to the impairment provisions of IFRS 9.
- As regards the listed redeemable notes as disclosed in Note 5, the management considers that they have low credit risk given their strong external credit rating and hence expect to recognise 12-month expected credit losses for these items. In relation to the financial guarantee contracts, whether lifetime or 12-month expected credit losses should be recognised would depend on whether there has been a significant increase in credit risk of these items from initial recognition to the date of initial application of IFRS 9. The management is currently assessing the extent of this impact.
- In general, the management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and are currently assessing the potential impact.

In January 2016, IASB issued IFRS 16 *Leases*. The standard introduces a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective. This new standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinction on operating leases (off-balance sheet) and finance leases (on-balance sheet) is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated



depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, among others. Furthermore, the classification of cashflows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cashflows respectively. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by this new standard. IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 with early application permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. CGIF does not anticipate that the application of these amendments will have a material impact on the financial statements.

In January 2016, amendments to IAS 7 *Statement of Cash Flows (Disclosure Initiative)* was issued by the IASB. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are applied to prospectively annual periods beginning on or after 1 January 2017 with earlier application permitted. CGIF do not anticipate that the application of these amendments will have a material impact on the financial statements.

### **NOTE 3—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of CGIF have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

The accounting policies adopted are consistent with those of the previous financial year unless stated otherwise.

These financial statements have been prepared using the historical cost basis except for certain assets and financial instruments that are measured at fair values or revalued amounts at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, CGIF takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety.

The fair values of CGIF's financial assets and liabilities are categorized as follows:

Level 1: fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities that CGIF can access at the measurement date;

Level 2: fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3: fair values are based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Inter-level transfers from one year to another may occur due to changes in market activities affecting the availability of quoted market prices or observable market data.

CGIF's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

#### *Cash*

Cash represents cash on hand or deposit in a bank account.

#### *Financial Instruments*

Financial assets and liabilities are recognized by CGIF once it becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue are added to or deducted from the fair value of the financial assets or financial liabilities (except for financial assets and financial liabilities at fair value through profit or loss), as appropriate, on initial recognition.

#### *Financial Assets*

CGIF classifies its financial assets in the following categories: financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments (HTM), available for sale (AFS) financial assets and loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets are acquired.

#### *Effective Interest Method*

Effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transactions costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income on investment securities and time deposits are recognized as earned and reported net of amortization of premiums and discounts. Interest is accrued, by reference to the principal outstanding at the applicable effective interest rate.

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at amortized cost using the effective interest method, less any impairment. This includes cash on hand or deposit in a bank account, time deposits, accrued interest income, guarantee fee receivables, and other receivables.

#### *Investments*

All investment securities and negotiable certificate of deposits by CGIF are considered to be "Available for Sale" and are reported at fair value. Time deposits are reported at cost which is a reasonable estimate of fair value. Investment securities are recorded at trade dates. Except for foreign exchange gains or losses, any gain or loss arising from change in fair value are recognized directly in other comprehensive income under member's equity.

### *Derivative Financial Instruments*

To manage its exposure to market risks, CGIF may enter into derivative financial instruments, including foreign exchange forward contracts. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument are recognized immediately in profit and loss unless the derivative is designated and effective as a hedging instrument.

### *Impairment of Financial Assets*

Financial assets are assessed at the end of each reporting period for objective evidence of impairment. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

Objective evidence that financial assets are impaired could include significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments, indications that the borrowers or issuers will enter bankruptcy or financial re-organization, disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. Losses are recognized in profit or loss and carrying amount is reduced through the use of an allowance account. When it is considered uncollectible or there is no realistic prospects of recovery of the assets, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the profit or loss. Changes in the carrying amount of the allowance account are recognized in profit or loss.

In the case of AFS financial assets, that are considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss during the period. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

### *Derecognition of Financial Assets*

CGIF derecognizes a financial asset when the contractual rights to receive the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

When an AFS financial asset is derecognized or disposed of, the unrealized gains or losses previously recognized in Member's Equity will be recognized in the Statement of Net Income.

### *Guarantee Fee Receivable*

Guarantee fee receivables are initially recognized at their fair values in the Statement of Financial Position, which are estimated based on the present value of total fees expected to be received under the guarantees.

### *Guarantee Liability*

Guarantee liabilities recorded in the Statement of Financial Position represents the unamortized balance of the total present value of the guarantee fees received or expected to be received under the terms of the guarantee. Subsequently, the guarantee liabilities are measured at the higher of the unamortized balance of the amount initially recognized, and the expenses required to settle any commitments which are probable and can be reliably estimated.

### *Revenue Recognition for Guarantee Fee*

Guarantee fees are recognized upon performance of services and is amortized over the term of the guarantee obligation in accordance with the terms and conditions of the agreement.

### *Furniture, Fixtures and Equipment*

All furniture, fixtures and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the asset and bringing it to its working condition.

Subsequent costs incurred for the purpose of enhancement or improvement shall be added to the carrying amount of the asset when it is probable that the expenditure will cause additional future economic benefit to CGIF. Other subsequent costs like maintenance, repairs and minor betterments are charged to expense.

Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using straight-line method. The estimated useful lives, residual values and depreciation method are reviewed regularly with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives by asset class are as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Office Furniture and Equipment	
Furniture - Imported	10 years
Furniture - Non-Imported	7 years
Other Office Equipment	4 years
IT and Communication	
Computer	4 years
Server	4 years
Network	4 years
Communication	7 years
Others	4 years
	Over the
<u>Building Improvement</u>	<u>lease period</u>

An item of furniture, fixture, and equipment is derecognized upon disposal. Any gain or loss arising on the disposal of an item of furniture, fixture, and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in Statement of Net Income.

### *Intangible Assets*

Intangible assets are composed of acquired information system software licenses that are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These are amortized over a period of 4 years and are carried at cost less accumulated amortisation and accumulated impairment losses.

### *Impairment of Tangible and Intangible Assets*

At the end of each reporting period, CGIF reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of asset's fair value less costs of disposal and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks

specific to the asset for which the estimates of future cashflows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but only to the extent of the carrying amount of the asset had no impairment loss been recognized in prior years. A reversal of the impairment loss is recognized immediately in the profit or loss.

#### *Offsetting Arrangements*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to either settle on a net basis or to realize the asset and settle the liability simultaneously. A right to set-off must be available at the end of the reporting period rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

#### *Subscribed Capital*

Each contributor subscribed by depositing with the Trustee a duly completed Instrument of Acceptance. Contributions are included in the financial statements at historical cost from the date of the signing of the Instrument of Acceptance.

#### *Segment Reporting*

CGIF is a credit guarantee and investment facility established to develop and strengthen local currency and regional bond markets, so that creditworthy corporations can access those markets and avoid currency and maturity mismatches. CGIF's products and services are unique and are structured and distributed in a uniform manner to its clients. Based on CGIF's operations, CGIF has only one reporting segment.

#### *Fair Value of Financial Instruments*

IFRS 13, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is market-based measurement, not an entity-specific measurement. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market, or in the absence of principal market, in the most advantageous market for the asset or liability.

#### *Functional and Presentation Currency*

CGIF's members are from ASEAN+3 and ADB with the subscriptions and redemptions of the shares denominated in the United States dollars (USD). The primary activity of CGIF is guaranteeing bonds that are denominated in local currencies and issued by creditworthy ASEAN+3 corporations in the ASEAN+3 region. The performance of CGIF is measured and reported to the contributors in USD. The USD is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in USD, which is CGIF's functional and presentation currency.

#### *Translation of Currencies*

CGIF adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in currencies other than USD to be translated to the reporting currency using the exchange rates applicable at the time of transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. At the end of



each accounting period, translations of asset and liabilities which are not denominated in USD are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments are accounted for as unrealized foreign exchange gains or losses and are charged to operations in the Statement of Net Income.

#### *Critical Accounting Estimates and Judgment*

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires exercising judgment in the process of applying the CGIF's accounting policies and determining the fair value of financial instruments. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are included in Notes 5, 6, and 7. Since the estimates are based on judgment and available information, actual results may differ and might have a material impact on the financial statement.

#### **NOTE 4—RISK MANAGEMENT**

In CGIF, risk management and internal control go hand-in-hand, and are representations of each other. Internal control and risk management are intended to facilitate the implementation of effective and efficient operations, attainment of business objectives, management of risks, and the safeguarding of CGIF's Contributors' investment in CGIF.

Risk management in CGIF covers all perceived risk exposures, particularly exposures to credit risk, market risk, liquidity risk, and operating risk. These risks are managed pursuant to Operational Policies, and Risk Management Framework, approved by CGIF's Board of Directors. The Board's Internal Control and Risk Management Committee and Risk Management Department (RMD) cause the functional units to identify, measure, monitor, control and report risks. The Board, management's Guarantee and Investment Committee, and the CEO oversee and regulate both risk taking and risk management. Appetite for risk taking as expressed in operational controls and risk exposure limits emanates from the Board.

CGIF endeavors to conform to international best practices in risk management. CGIF subscribes to the idea that informed risk-taking presents opportunities. CGIF takes risks that offer commensurate rewards. Risk-taking roles are independent of risk management roles. A positive risk management culture is fostered – the system clarifies what conduct and procedures are acceptable, and which ones are not; encourages initiatives that improve the management of risks; promotes transparency, individual responsibility and accountability.

#### *Categories of Financial Instruments*

Categories of financial instruments as of 31 December 2016 and 2015 are as follows (in \$'000):

	2016	2015
Financial assets		
AFS investments	718,014	711,474
Derivative assets at fair value through profit or loss	465	69
Loans and receivables	52,579	39,284
Financial liability		
Derivative liabilities at fair value through profit or loss	565	-
Financial liabilities at amortized cost	1,945	1,082

### *Credit Risk*

As per its Investment Guidelines, CGIF limits the international ratings of its investments to no lower than AA- and A-1, respectively, for long term instruments and short-term instruments. CGIF's deposits are placed in banks with short-term ratings of at least A-1. Credit risk in these investments is considered low.

CGIF only considers for bond issuers that hurdle a policy maximum acceptable risk rating. Acceptable borrowers undergo a stringent due diligence review. Guarantee Underwriting Proposals (GUPs) require approval of management's Guarantee and Investment Committee, and of the Board of Directors (Board). In aid of informed decisions on GUPs, the Board is furnished with GUP review notes from CGIF's RMD, and from an external advisor to the Board.

CGIF's guarantee portfolio is monitored and controlled so that CGIF's leverage ratio and credit exposure concentrations are kept within policy limits. In CGIF, leverage ratio is (A) total credit guarantee exposure to (B) capital less loss reserves. Total credit guarantee exposure is the risk weighted sum of credit exposures to guaranteed bond issuers and credit exposures to reinsurers. CGIF's maximum leverage ratio, currently 2.5:1, is determined by the MOC on the recommendation of the CGIF Board.

CGIF manages limits and controls concentrations of credit risk. Guarantee exposure to any country and to any currency is capped at 20% and 40%, respectively, of CGIF's Maximum Guarantee Capacity (MGC), where MGC is the product of (a) total paid-in capital of CGIF plus retained earnings, less credit loss reserves and foreign exchange loss reserves, less all illiquid investments and (b) the maximum leverage ratio of 2.5:1. Aggregate guarantee exposure to any single Intermediate Jurisdiction (i.e., a country outside of the ASEAN+3 where a guaranteed borrower is registered) and aggregate exposure to all Intermediate Jurisdictions are limited to 20% and 40%, respectively, of CGIF's MGC. Aggregate guarantee exposure to any sector and to any industry is limited to 40% and 20%, respectively, of MGC. In any country, exposure to any industry may not exceed 10% of MGC. Single borrower exposures, and single group exposures, may not exceed 20% of CGIF's paid-in capital. CGIF's leverage ratio and concentration ratios are reported quarterly to the CGIF Board.

The carrying amount of financial assets recorded in the financial statements represents CGIF's maximum exposure to credit risk.

With reinsurance treaty by which CGIF will cede the agreed portion of credit risk on the bond issuers to a consortium of reinsurers, CGIF's credit risk on the existing guarantee portfolio is reduced. Please refer to Note 18.

### *Market Risk*

Market risk represents the potential loss that could result from adverse market movements. The main components of market risk for CGIF are interest rate risk and foreign exchange risk.

Interest rate risk is primarily the exposure of income on assets to fluctuation in interest rates. An objective of interest rate risk management in CGIF is the generation of overall interest income that is not overly sensitive to changes in interest rates, but yet responsive to general market trends.

CGIF's Investment Guidelines restrict CGIF's investment portfolio duration to no more than 5 years. The duration of CGIF's portfolio shall mean the market value-weighted average of effective duration of all outstanding investments. As of 31 December 2016, CGIF investment portfolio was invested with maturities up to 6.8 years (4.5 years - 31 December 2015), with an average effective duration of 2.61 years (1.77 years - 31 December 2015). CGIF investments are sensitive to interest rate movements. For CGIF's fixed income portfolio at end-December 2016, it is estimated that a 100 basis points upward/downward parallel shift in the yield curve would cause an unrealized loss/gain of about \$18.8 million (\$12.8 million - 31 December 2015).

CGIF is exposed to foreign exchange risk underlying foreign currency payables and receivables relating mostly to CGIF's guarantee operation. CGIF policy requires the hedging of foreign exchange risk relating to guarantee fee receivables to the extent possible. Subject to the availability of hedge markets, transaction costs and administrative cost, it is possible that some foreign exchange risk exposure may be left without hedge. Foreign exchange risk is managed within Board-approved limits. For CGIF's foreign exchange exposure at 31 December 2016, it is estimated that a 10% adverse change in FX rates in the relevant foreign currency exposure will cause an instant loss of \$0.5 million (\$0.1 million - 31 December 2015).

The following table presents CGIF's foreign exchange exposure (in '000) as at the end of the reporting period:

Currency	Net Assets			
	2016		2015	
	Local Currency	USD Equivalent	Local Currency	USD Equivalent
PHP	(44,247)	(889)	1,662	35
IDR	11,207,137	833	1,574,912	115
MYR	(42)	(9)	(42)	(10)
JPY	(390)	(3)	(679)	(6)
THB	160	4	160	4
SGD	(369)	(255)	328	233
VND	(68,473,473)	(3,009)	(12,806,196)	(570)
GBP	(11)	(14)	(7)	(11)

#### *Counterparty Risks*

As CGIF may utilize derivative instruments to hedge risk exposure, CGIF may be exposed to counterparty risk, i.e., the risk that counterparties to derivatives transactions may be unable to meet its obligation to CGIF. Given the nature of CGIF's operations, it is not possible to eliminate counterparty credit risk. However, CGIF minimizes this risk by executing transactions within a prudent framework of approved counterparties with its minimum credit rating standards.

In as much as offsetting arrangements are concerned, CGIF does not have any financial instruments which are subject to offsetting, enforceable master netting arrangements or similar netting agreements.

#### *Liquidity Risk*

Liquidity risk can arise if CGIF is unable to provide funds to meet its financial and operational commitments. CGIF maintains adequate liquidity resources to meet the cash requirements and potential calls on the guarantees issued. CGIF assesses and monitors the availability of its liquid assets on a quarterly basis. CGIF conducts quarterly tests of its liquidity under stress scenarios where CGIF has to meet lumpy obligations related to claims on guarantees, and raise funds from various sources. The liquidity stress test in consideration of CGIF's guarantee portfolio as of 31 December 2016 and 2015 indicates that CGIF can generate the liquidity that that will be required to meet its payment obligations in the event of guarantee claims on CGIF.



The following table details (in \$'000) the maturity profile of financial instruments. The maturity analysis is based on the remaining period from the end of the reporting date to the contractual maturity date or the expected date the financial asset will be realized and the financial liability will be settled.

	31 December 2016					
	Less than 1 month	1 to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	TOTAL
Financial assets						
AFS investments	-	-	199,956	405,900	112,158	718,014
Derivative assets held for trading	219	238	8	-	-	465
Loans and receivables	10,190	1,772	6,874	24,105	9,638	52,579
Total financial assets	10,409	2,010	206,838	430,005	121,796	771,058
Financial liabilities						
Derivative liabilities held for trading	-	33	66	466	-	565
Financial liabilities at amortized cost	111	840	815	179	-	1,945
Total financial liabilities	111	873	881	645	-	2,510
Total maturity gap	10,298	1,137	205,957	429,360	121,796	768,548

	31 December 2015					
	Less than 1 month	1 to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	TOTAL
Financial assets						
AFS investments	76,998	60,010	85,042	489,424	-	711,474
Derivative assets held for trading	-	-	2	67	-	69
Loans and receivables	10,491	1,281	3,984	12,922	10,606	39,284
Total financial assets	87,489	61,291	89,028	502,413	10,606	750,827
Financial liabilities						
Financial liabilities at amortized cost	80	31	835	136	-	1,082
Total financial liabilities	80	31	835	136	-	1,082
Total maturity gap	87,409	61,260	88,193	502,277	10,606	749,745

### *Capital Resources*

CGIF's capital resources comprise of capital stock, retained earnings and a reserve. The primary objective in the management of CGIF's capital resources is to protect the capital by maintaining a conservative exposure to market risk, credit risk and liquidity risk. CGIF strives to maximize returns on the invested asset portfolio while minimizing volatility of investment income. CGIF capital resources are placed with the Trustee, ADB.

### *Capital Adequacy*

CGIF measures and monitors a capital adequacy ratio (CAR) that is more stringent than the Basel II CAR. CGIF's CAR accounts for a granularity adjustment capital charge, a metric of concentration risk due to the number of accounts in a credit portfolio. CGIF's policy floor CAR is 8.8%.

### *Operating Risk*

CGIF manages operating risks through annual risk and control self-assessments (RCSAs) conducted by each department in the enterprise. Through RCSAs, CGIF's operating units are directed to identify their operating risks, and assess the significance of each of these. The significance of an identified operating risk is a function of two attributes – the likelihood and the impact of occurrence of the operating risk event. Measurable risk indicators, and corresponding control limits, are assigned to each operating risk. Results of RCSAs are reported to the CEO and to the Board's Internal Control and Risk Management Committee.

## **NOTE 5—INVESTMENTS**

This account is composed of the following (in \$'000):

	2016	2015
Time Deposits	7,706	6,798
AFS Investments		
Government-related-entity or government-guaranteed obligations	608,747	646,406
Corporate obligations	109,267	65,068
Total AFS	718,014	711,474
<b>TOTAL INVESTMENT</b>	<b>725,720</b>	<b>718,272</b>

ADB, as the Trustee, manages capital resources in accordance with CGIF's Investment Guidelines prepared in consultation with ADB and approved by the CGIF Board of directors.

ADB follows the same process and internal controls to value the investment securities as ADB's portfolio. The data management unit in ADB's treasury department is responsible for providing the valuation in accordance with the business process. In instances where ADB relies primarily on prices from third party pricing information, there are procedures in place to validate the appropriateness of those values in determining the hierarchy levels. This involves evaluating the nature of prices provided by third party pricing sources to determine if they are indicative or binding prices.

The annualized rate of return on the average investments held during the year ended 31 December 2016, based on the portfolio held at the beginning and end of each month without the effect of change in fair value was 1.46% (1.30% - 31 December 2015)

The estimated fair value and amortized cost of the investments by contractual maturity as of 31 December 2016 and 2015 are as follows (in \$'000):

	2016		2015	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in less than one year	207,662	207,868	228,848	229,034
Due in one to five years	405,900	409,405	489,424	491,369
Due more than five years	112,158	115,697	-	-
<b>TOTAL</b>	<b>725,720</b>	<b>732,970</b>	<b>718,272</b>	<b>720,403</b>

#### *Fair Value Disclosure*

The fair value of the investments as of 31 December 2016 and 31 December 2015 were as follows (in \$'000):

	31 December 2016	Fair Value Measurements		
		Level 1	Level 2	Level 3
Time Deposits	7,706	-	7,706	-
Government-related-entity or government-guaranteed obligations	608,747	558,772	49,975	-
Corporate obligations	109,267	109,267	-	-

	31 December 2015	Fair Value Measurements		
		Level 1	Level 2	Level 3
Time Deposits	6,798	-	6,798	-
Government-related-entity or government-guaranteed obligations	646,406	394,676	251,730	-
Corporate obligations	65,068	65,068	-	-

If available, active market quotes are used to assign fair values to investment securities. These include government-related-entity/government-guaranteed obligations. For investments where active market quotes are not available, investments are categorized as Level 2 or Level 3, and valuation is provided by independent valuation services. Time deposits are reported at cost, which approximates fair value.

There were no inter-level transfers in 2016 and 2015.

Accrued interest income from investments is further detailed as follows (in \$'000):

	2016	2015
Time Deposits	1	-
AFS Investments	3,323	3,430
TOTAL	3,324	3,430

#### NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives held by CGIF are foreign exchange forwards that are entered into to manage foreign exchange risk from guarantee fee receivables denominated in a local currency. These represent commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlement will be made via delivery of forward proceeds at the agreed rates.

The amounts in the Statement of Financial Position do not necessarily represent the amounts of future cash flows involved. The derivative instruments may become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market prices relative to their original terms of contracts. The extent at which the instruments can become favorable or unfavorable in fair values can fluctuate significantly from time to time. As of 31 December 2016, the changes in fair value of the foreign exchange forwards held that was reported in the Statement of Financial Position as asset amounted to \$0.47 million (\$0.07 million – 31 December 2015) and as liability amounted to \$0.57 million (nil – 31 December 2015). The corresponding net loss in 2016 (net gain – 2015) was reported in the Statement of Net Income.

For derivative financial instruments, active market quotes are used to assign fair values. For instruments where active market quotes are not available, these are categorized as Level 2 or Level 3. For instruments in Level 2, valuation is derived based on the direct quoted prices and for instruments where valuation is provided by independent valuation services, these are categorized in Level 3.

The fair value of the derivatives assets were as follows (in \$'000):

	31 December 2016	Fair Value Measurements			
		Level 1	Level 2	Level 3	
	Nominal Amount	Fair Value			
FX Forwards	20,001				
Assets		465	-	465	-
Liabilities		565	-	565	-

	31 December 2015		Fair Value Measurements		
	Nominal Amount	Fair Value	Level 1	Level 2	Level 3
FX Forwards	7,715				
Assets		69		69	-
Liabilities		-	-	-	-

There were no inter-level transfers in 2016 and 2015.

#### NOTE 7 – GUARANTEES

As of 31 December 2016, CGIF has issued guarantees covering bonds denominated in Thai Baht, Indonesian Rupiah, Singapore Dollar, Vietnamese Dong and Philippine Peso equivalent to \$1,371 million (\$833 million – 31 December 2015) at respective issuance dates. The total outstanding amount of the guarantees issued under the related bonds was \$1,120 million as of 31 December 2016 (\$749 million – 31 December 2015). The guarantees are inclusive of coupon payments.

Below is the summary of the outstanding guarantees by currency (in '000):

	31 December 2016			
	Local Currency			USD Equivalent
	Principal	Coupon	Total Obligation	of Total Obligation
SGD	635,000	131,349	766,349	528,663
VND	5,100,000,000	2,888,632,206	7,988,632,206	351,025
PHP	4,686,600	1,149,191	5,835,791	117,269
THB	2,780,000	375,300	3,155,300	87,603
IDR	420,000,000	62,682,000	482,682,000	35,898
				1,120,458

31 December 2015				
	Local Currency			USD Equivalent of Total Obligation
	Principal	Coupon	Total Obligation	
SGD	535,000	132,072	667,072	474,548
VND	2,100,000,000	1,504,175,343	3,604,175,343	160,357
THB	2,850,000	50,449	2,900,449	80,383
IDR	420,000,000	38,892,000	458,892,000	33,625
				748,913

As of 31 December 2016, a guarantee liability of \$41.8 million (\$27.8 million - 31 December 2015) was reported on the Statement of Financial Position representing the unamortized balance of sum of the received guarantee fees and the present value of total guarantee fees expected to be received under the

terms of the guarantee.

The reported guarantee fee receivable of \$38.6 million represents the present value of the stream of total guarantee fees expected to be received for the guarantee outstanding as of 31 December 2016 (\$25.5 million – 31 December 2015).

As of 31 December 2016 and 2015, all of CGIF's future guarantee fee receivables are classified as Level 3 within the fair value hierarchy.

The Finance Control Department is responsible for determining and reporting the fair value of guarantees reported in the Statement of Financial Position. Future guarantee are stated at discounted present value using significant unobservable inputs such as discount rates applicable to individual guarantee contracts that are internally determined and are classified under Level 3. The valuation technique and significant unobservable quantitative inputs for guarantee receivables classified as Level 3 as of 31 December 2016 and 2015 were summarized below:

	Valuation Technique	Unobservable Input	2016	Range 2015
Guarantee receivable	Discounted cash flows	Discount rates	2.62% to 10.02%	2.62% to 9.20%

There were no inter-level transfers in 2016 and 2015.

#### NOTE 8—FURNITURE, FIXTURES AND EQUIPMENT - NET

The details of this account are as follows (in '\$'000):

	Office Furniture and Equipment	IT and Communications	Building Improvement	Work in Progress	TOTAL
Cost					
1 January 2015	181	153	348	4	686
Additions	32	43	5	-	80
Disposals	(2)	-	(348)	-	(350)
Transfers/ Reclassification	-	-	-	(4)	(4)
31 December 2015	211	196	5	-	412
Additions	27	9	-	-	36
Disposals	-	-	-	-	-
Transfers/ Reclassification	60	-	-	-	60
31 December 2016	298	205	5	-	508

	Office Furniture and Equipment	IT and Communications	Building Improvement	Work in Progress	TOTAL
Accumulated Depreciation/Amortization					
1 January 2015	(51)	(83)	(348)	-	(482)
Depreciation	(28)	(42)	-	-	(70)
Amortization	-	-	(2)	-	(2)
Disposals	1	-	348	-	349
Transfers/ Reclassification	-	-	-	-	-
31 December 2015	(78)	(125)	(2)	-	(205)
Depreciation	(34)	(33)	-	-	(67)
Amortization	-	-	(2)	-	(2)
Disposals	-	-	-	-	-
Transfers/ Reclassification	(30)	-	-	-	(30)
31 December 2016	(142)	(158)	(4)	-	(304)
NET, 31 December 2016	156	47	1	-	204
NET, 31 December 2015	133	71	3	-	207

Depreciation is reported under administrative expenses in the Statement of Net Income.

#### NOTE 9—INTANGIBLE ASSETS

Intangible assets are composed of Information systems software that is capitalized. The details of this account are as follows (in \$'000):

	Information Systems Software
Cost	
1 January 2015	577
Additions	209
Disposals	-
Transfers/Reclassification	-
31 December 2015	786
Additions	379
Disposals	-
Transfers/Reclassification	-
31 December 2016	1,165

	<u>Information Systems Software</u>
Accumulated Amortization	
1 January 2015	(275)
Amortization	(169)
Disposals	-
Transfers/Reclassification	-
	<hr/>
31 December 2015	(444)
Amortization	(219)
Disposals	-
Transfers/Reclassification	-
	<hr/>
31 December 2016	(663)
	<hr/>
NET, 31 December 2016	502
	<hr/>
NET, 31 December 2015	342
	<hr/>

The amortization is reported under administrative expenses in the Statement of Net Income.

#### **NOTE 10—OTHER ASSETS**

Other assets pertain to accounts receivables for taxes withheld, advances made by CGIF for staff benefits, prepaid office rentals, subscriptions and licenses as well as security deposit.

#### **NOTE 11—ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses pertain to administrative and operating expenses incurred but not yet paid. In 2016, this account also includes accrual for reinsurance expense.

#### **NOTE 12—RELATED PARTY TRANSACTIONS**

CGIF utilizes certain services from ADB including treasury service as may be agreed with the Chief Executive Officer from time to time.

Other liabilities and other miscellaneous expenses both amounting to \$0.70 million pertain to the provision for ADB's administration fee which is equivalent to 10 bps of contributions received as of 31 December 2016. The amount of \$0.70 million pertaining to ADB's administration fee for 2015 was settled subsequently in April 2016. Key management personnel total compensation of short-term employee benefits for 2016 amounted to \$2.55 million (\$2.39 million – 2015).



**NOTE 13—MEMBERS' EQUITY**

CGIF did not receive any additional subscription in 2016.

The subscribed capital for CGIF as of 31 December 2016 and 2015 is as follows:

Contributor	No. of Shares	Amount (\$'000)
Asian Development Bank	1,300	130,000
ASEAN Member Countries		
Brunei Darussalam	56	5,600
Cambodia	1	100
Indonesia	126	12,600
Lao People's Democratic Republic	1	100
Malaysia	126	12,600
Myanmar, Republic of the Union of	1	100
Philippines	126	12,600
Singapore	126	12,600
Thailand	126	12,600
Viet Nam	11	1,100
	<u>700</u>	<u>70,000</u>
Others (non-ASEAN Member Countries)		
China, People's Republic of	2,000	200,000
Japan Bank for International Cooperation	2,000	200,000
Korea, Republic of	1,000	100,000
	<u>5,000</u>	<u>500,000</u>
Total	<u>7,000</u>	<u>700,000.00</u>

**NOTE 14— RESERVE**

The allocation of 2015 net income in retained earnings to Reserve was approved by the Contributors, per Resolution No. 2016-A-04, at the 31 May 2016 Meeting of Contributors.

**NOTE 15— INTEREST INCOME**

Interest income for the year is composed of (in \$'000):

	2016	2015
AFS Investments	9,953	9,048
Guarantee	337	118
Time Deposits	133	98
Others	9	4
	<u>10,432</u>	<u>9,268</u>

**NOTE 16—MISCELLANEOUS INCOME**

Miscellaneous income includes reimbursements of legal and out of pocket expenses, gain/loss from disposal of fixed assets, commission from reinsurer and other income which is not related to the normal operations of CGIF.

**NOTE 17— ADMINISTRATIVE AND OPERATIONAL EXPENSE**

Administrative and operational expense for the year is composed of (in \$'000):

	2016	2015
Staff Related Expenses	4,686	4,167
Financial and Legal Services	956	370
Depreciation and Amortization	258	241
Short Term Staff Consultants	253	201
Business Travel	193	195
MOC and BOD Expenses	188	162
Rental Expense	142	141
Others	430	330
	<u>7,106</u>	<u>5,807</u>

**NOTE 18—REINSURANCE**

CGIF has entered into a quota share reinsurance treaty with a consortium of reinsurers effective 1 October 2016. Under the reinsurance treaty, CGIF's outstanding guarantees as of 1 October 2016 and new guarantees issued from then to end-2017 will be ceded to the consortium up to the agreed portion. For guaranteed bonds with long tenors, special approvals from the consortium may be required for inclusion in the treaty.

Reinsurance expense represents the quota share of the premium to be ceded to the consortium of reinsurers based on the reinsurance treaty. The expenses are accrued in the books over the period it covers.