

ANNUAL REPORT



2014



Credit Guarantee &
Investment Facility

An Asian Bond Markets Initiative



Credit Guarantee & Investment Facility

An Asian Bond Markets Initiative

The **Credit Guarantee and Investment Facility (CGIF)** was established by the ASEAN+3¹, together with the Asian Development Bank on 12 November 2010. The facility was part of the Asian Bond Markets Initiative to develop and strengthen local currency and regional bond markets, so that creditworthy corporations can access these markets and avoid currency and maturity mismatches.

CGIF aims to promote economic development, promote resilience of the financial markets, and prevent disruptions to the international financial order by developing deep and liquid local currency and regional bond markets. This will result in efficient allocation of savings within the Asia and Pacific region by facilitating access of creditworthy entities to local currency and regional bond markets, while promoting the issuance of debt securities with longer-term maturities to match the gestation of investment projects.

ADB is the trustee of CGIF, and as such, holds in trust and manages all CGIF funds and other property in accordance with the provisions of the Articles of Agreement.

This Annual Report for 2014 includes the Independent Auditor's report and the Financial Statements for 2014.

¹ The Association of Southeast Asian Nations (ASEAN) nations comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. The ASEAN +3 comprises the ASEAN nations, plus the People's Republic of China, Japan, and the Republic of Korea.

Contents	Page
Abbreviations	1
Report of the Chairperson of the Board of Directors	2
Report of the Audit Committee (AC)	4
Report of the Internal Control and Risk Management Committee (ICRMC)	6
Report of the Nomination and Remuneration Committee (NRC)	11
Report of the Chief Executive Officer (CEO)	12
Appendix	25

Our Milestones

1st CGIF Bond Guarantee



3.55% 2.85 billion Thai Baht, three-year Bond

1st CGIF IDR Bond Guarantee



8.20% 300 billion Indonesia Rupiah, three-year Medium Term Notes

1st Follow-on Issuance

"Increased Investor Demand"



7.95% 120 billion Indonesia Rupiah, three-year Medium Term Notes

1st SGD Bond Guarantee

"Bridged a Lao corporation with SGD bond investors"



2.00% 60 million Singapore Dollar, three-year Bond

1st Long Bond Guarantee

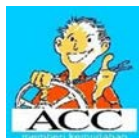
"Financed long term infrastructure assets with long term bonds"



3.25% 180 million Singapore Dollar, ten-year Bond

2nd SGD Bond Guarantee

"Enabled regional savings to support promising sectors and corporates within ASEAN+3"



2.11% 100 million Singapore Dollar, three-year Bond

1st VND Bond Guarantee

"Revived long term fixed rate financing in Vietnam"

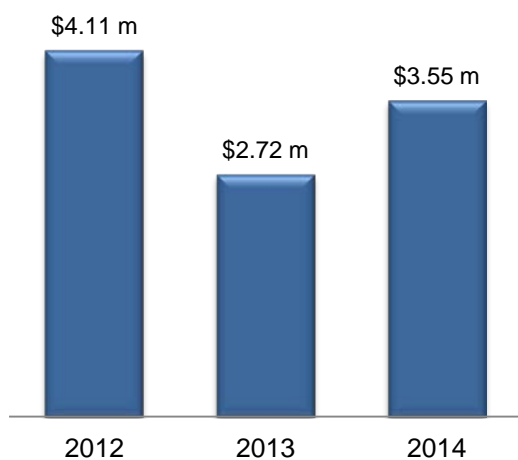


8.00% 2.1 trillion Vietnam Dong, ten-year Bond

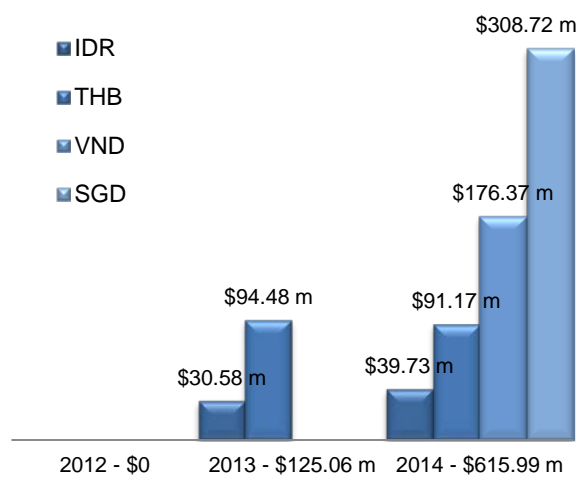
Financial Highlights



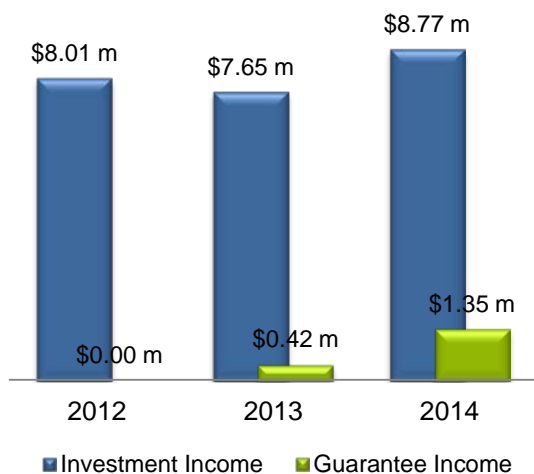
Net Income



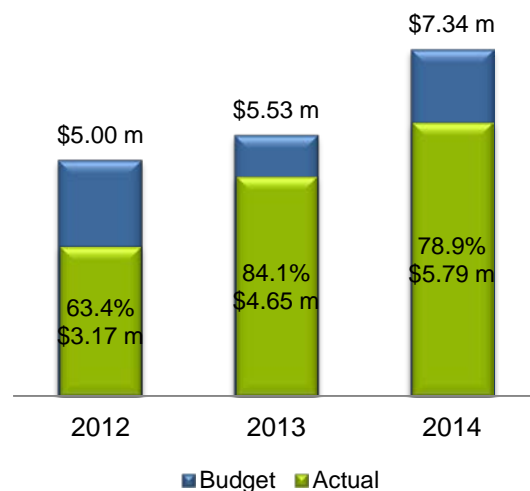
Outstanding Guarantees (US\$ equivalent at inception)



Income from Investment and Guarantees



Actual vs. Budget Operating and Admin Expenses



Board of Directors



Chairman
Board of Directors'

**Mr. Liange
LIU**

Vice-Chairman and President
The Export-Import
Bank of China
PRC



Chairman
Nomination and
Remuneration Committee

**Mr. Atsushi
INOUE**

Director
Promotion of Regional
Financial Cooperation
International Bureau
J-MOF



Chairman
Internal Control and Risk
Management Committee

**Mr. June-shik
MOON**

Executive Director
SME Finance Group
The Export-Import Bank of
Korea



Chairman
Audit Committee

**Mr. Robert
PAKPAHAN**

Director General
Directorate General of
Debt Management
Indonesia - Ministry of
Finance;
ASEAN Representative



**Ms. Junhong
CHANG**

Deputy Director General
International Economic
Relations Department
Ministry of Finance
PRC



**Mr. Nao
KAWAKAMI**

Director
Power & Water Finance
Department
Japan Bank for International
Cooperation (JBIC)



**Ms. Christine Annette
ENGSTROM**

Director
Private Sector Operations
Department
Financial Institutions Division
Asian Development Bank



**Mr. Kiyoshi
NISHIMURA**

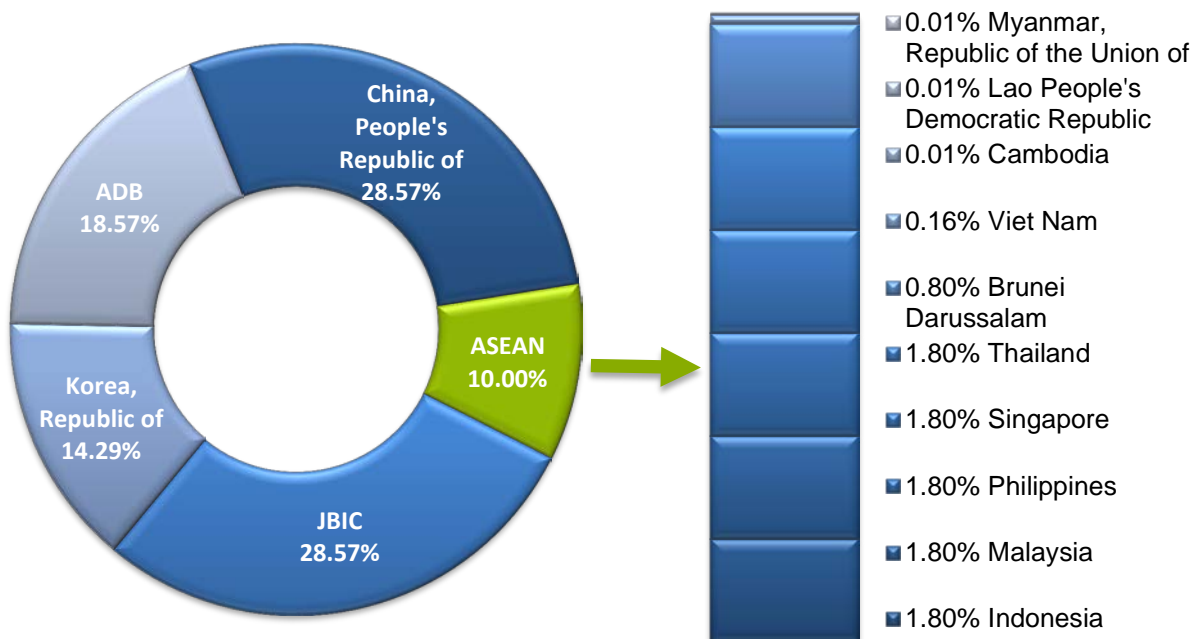
Chief Executive Officer
Credit Guarantee and
Investment Facility

Contributors

Capital Contributors

CGIF is owned by the governments of the member countries of the ASEAN plus the People's Republic of China (PRC), Japan, and the Republic of Korea (ASEAN+3), and ADB.

The authorized capital of CGIF is \$700 million divided into 7,000 shares, with a nominal value of \$100,000 each. All shares are subscribed and paid in full by the contributors since April 2012. Illustration below shows each contributor's ownership rights in proportion to their capital contribution.



Meeting of Contributors

The Annual MOC was held on 29 May 2014 in Hanoi, Viet Nam. Appendix 1 contains the list of Contributors' representatives.

The Contributors considered and approved the following recommendations of the Board:

- CGIF's 2013 Annual Report, including the Audited Financial Statements.
- The allocation of net income for 2013 of \$2.72 million in Retained Earnings to the Reserves.
- The appointment of Deloitte & Touche LLP as CGIF's external auditor for the fiscal years 2014 to 2018.

Governance

- Effective 27 January 2014, the chairperson of the Board of Directors Xinqiang Zhu from Export-Import Bank of China (China Eximbank) resigned as director of CGIF and nominated the then China Eximbank Vice-President Liu Liange to act as director of the Board of CGIF.
- Effective 27 January 2014, Board Director Chen Shixin from Ministry of Finance (MOF), of the People's Republic of China (PRC), resigned as director of CGIF and nominated the PRC MOF's Deputy Director General Zheng Quan to act as director of the Board of CGIF.
- On 25 March 2014, the Contributors to the CGIF considered and unanimously approved the following:
 - Election of Liu Liange from China Eximbank as the new chairperson of the CGIF Board of Directors to serve the remaining portion of the term of Director Xinqiang Zhu, after which, a new chairperson of the CGIF Board of Directors will be elected at the 2015 Annual Meeting of Contributors.
 - Election of Robert Pakpahan from Indonesia MOF representing the Association of Southeast Asian Nations (ASEAN), as the new chair of the Audit Committee retroactively from 25 November 2013, to serve the remaining portion of the term of Chularat Suteethorn, or until 27 May 2014.
- On 29 May 2014, CGIF Contributors considered and unanimously approved the election of the following directors as chairpersons of their respective committees for another 3-year term, to begin retroactively from 27 May 2014 and ending on 27 May 2017:

Audit Committee	:	Robert Pakpahan, Indonesia MOF; ASEAN
Internal Control and Risk Management Committee	:	June-shik Moon, Export-Import Bank of Korea
Nomination and Remuneration Committee	:	Kouji Kawashima, Japan MOF
- On 3 July 2014, Atsushi Inoue, Japan MOF's director for Promotion of Regional Financial Cooperation, International Bureau, replaced Kouji Kawashima who resigned effective 30 June 2014 as director for CGIF.
- Effective 19 November 2014, Director Zheng Quan from the PRC MOF, resigned as director of CGIF and nominated PRC MOF's Deputy Director General, International Economic Relationship Department Chang Junhong to act as director of the Board of CGIF.

ABBREVIATIONS

ADB	-	Asian Development Bank
ASEAN	-	Association of Southeast Asian Nations
ASEAN+3	-	ASEAN plus the People's Republic of China, Japan and the Republic of Korea
CEO	-	Chief Executive Officer
CGIF	-	Credit Guarantee and Investment Facility
PRC	-	People's Republic of China
DOD	-	Deal Operations Department
EXIM	-	Export-Import
GCP	-	Guarantee Concept Paper
GIC	-	Guarantee and Investment Committee
GUP	-	Guarantee Underwriting Paper
ICRMC	-	Internal Control and Risk Management Committee
MOC	-	Meeting of Contributors
MOF	-	Ministry of Finance
NRC	-	Nomination and Remuneration Committee
RCSA	-	Risk and Control Self-Assessment
RMF	-	Risk Management Framework

Currency Units

IDR	-	Indonesian Rupiah
MYR	-	Malaysian Ringgit
PHP	-	Philippine Peso
SGD	-	Singaporean Dollar
THB	-	Thai Baht
VND	-	Vietnamese Dong

NOTE

In this report, "\$" refers to US dollars unless otherwise stated

REPORT OF THE CHAIRPERSON OF THE BOARD OF DIRECTORS

The Board of Directors oversees and supervises CGIF Management and operations, and represents and protects the interest of the Contributors. In the discharge of its duties, the Board leads, guides, and performs policy oversight of CGIF management to ensure that CGIF operates in full compliance with international best practices, with a focus on minimizing inherent risks, and protecting the full and efficient implementation of the strategic decisions decided upon at the Meeting of Contributors (MOC). The Board is accountable and reports to the MOC on the operations, performance, and management of CGIF.

In 2014, the Board held two meetings in Manila, Philippines; one meeting in Jakarta, Indonesia; and two telephone conferences. In all the Board meetings held in 2014, the Board ensured compliance with its key responsibilities in the governance of CGIF by providing oversight and supervision of management and the operations of CGIF.

Besides approval of guarantee transactions, key items discussed and approved by the Board in 2014 involved upgrades, enhancements and amendments to the Business Plan, the Risk Management Framework (RMF), the Safeguard Standards and the Treasury Guidelines. The Board also commenced CGIF's Operational Review in 2014.

During the first Board meeting in Manila, Philippines, on 15-16 April 2014, the Board approved the Annual Report for 2013 and the allocation of the net income of \$2.72 million for 2013 in Retained Earnings to the Reserves of CGIF, for recommendation to the MOC. The Board also approved the authority of the Chief Executive Officer (CEO) to delegate his signing power for specific guarantee or investment transactions to certain executive staff. The Board also delegated to the CEO the authority to sign, execute and implement ancillary actions for financial arrangements and transactions with counterparties for derivatives transactions and bank accounts, and re-delegate his signing power to other staff. The Board also adopted the Audit Committee (AC)'s decisions including its approval on the Audit Manual Framework.

On 05-06 August 2014, the Board held its second meeting in Jakarta, Indonesia where the Board approved the revisions to the definition of "Eligible Issuers" in the original Business Plan to enhance its rules about the use of offshore financial centres which are not in the ASEAN+3 regions, and CGIF's maximum exposure to issuers in acceptable intermediate Jurisdiction. The Board also approved the Staff Bonus Scheme and the Staff Annual Salary Adjustment. The Board also adopted the Internal Control and Risk Management Committee (ICRMC)'s

recommendation on the upgrades and amendments to the RMF concerning Credit Risk Management and Risk Reporting.

At the final Board meeting held on 26-27 November 2014 in Manila, Philippines, the Board approved the Business Plan, Work Program and Budget for 2015 and the extension of appointment of the Chief Financial Officer. The Board also adopted the AC's approval of the 2015 Internal Audit Plan and the ICRMC's approval of amendments of RMF concerning Credit Guarantee Process, Credit Guarantee Portfolio Management, Risk Control Reporting Guidelines, as well as Credit Documents Electronic Filing Guidelines.

With respect to guarantee transactions, during 2014, the Board approved three Guarantee Underwriting Proposals (GUP) in favor of (i) Kolao Holdings; (ii) PT Profesional Telekomunikasi Indonesia (Protelindo); and (iii) Masan Consumer Holdings, by electronic means.

The Operational Policies (OP 255) stipulates that, not later than after 2 years from start of CGIF operations, the Board is required to undertake an early Operational Review on the effectiveness of the initial phase of CGIF operations, together with the proposed mechanisms that would allow full operations by CGIF if the initial phase has been successful. In compliance with this requirement, the Board started the Operational Review process at the second Board meeting in August 2014 by setting the scope and timeframe of the operational review. The review aims to understand challenges and issues CGIF has faced during its initial phase, identify possible changes to CGIF's current policies and modus of operations to improve its effectiveness, and help form consensus among the Contributors on CGIF's medium-term direction. As part of the review, the Board also discussed, at its final meeting in November 2014, the result of a market demand study conducted by an external consultant, and key strategic issues concerning CGIF operations. The result of the review will be submitted to the annual MOC in 2015.

REPORT OF THE AUDIT COMMITTEE (AC)

The Audit Committee oversees, performs due diligence, and controls the financial aspects of CGIF's operations and performance by the Board.

The Audit Committee helps the Board fulfill its corporate governance and management responsibilities, particularly on CGIF's financial reporting and the internal and external audit functions. It ensures the integrity of financial reporting and performs an audit process that involves, among other things, effective and structured lines for internal audit and financial reporting, as well as the independence, objectivity, and thoroughness of the external audit. It ensures the most efficient use of resources and compliance with regulations and business procedures. Through effective dialogue among Board members, CGIF Management, and auditors, the culture and practice of effective oversight and ethical standards are fostered within CGIF.

The Audit Committee consists of directors from the Association of Southeast Asian Nations (ASEAN), PRC MOF, and the Korea Eximbank. The director representing the ASEAN serves as the chair.

In August 2014, the Audit Committee approved Management's proposal to have three meetings a year to coincide with the Board meetings, and one meeting via teleconference or email, as appropriate.

In 2014, the Audit Committee held meetings on 15 April, 5 August, and 26 November. CGIF's external auditor, Deloitte & Touche, participated in the April meeting via teleconference. Deliberations and discussions during the Audit Committee meetings were reported to the Board by the chairperson, which were considered and unanimously adopted by the Board. One meeting was held via e-mail in October.

Ensuring the integrity of financial reporting. The Audit Committee reviews significant financial reporting issues and judgments made in the preparation of financial statements, interim reports, preliminary announcements, and related formal statements. The committee reviews the clarity and completeness of disclosures in the financial statements. The Audit Committee reviewed and approved CGIF's 2013 audited and quarterly financial statements for 2014.

CGIF took over the accounting and financial control functions previously performed by the Asian Development Bank by implementing its own finance system from January 2014. The implementation was smoothly accomplished by meeting budget and several milestones, including the timeline. The Audit

Committee recognized the takeover of the accounting function where CGIF would produce its own financial statement for the fiscal year 2014.

Ensuring the effectiveness of the internal audit process. The Audit Committee reviews and approves the internal audit function's remit and ensures that the function has the necessary resources and access to information to enable it to fulfill its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors.

In its review of the internal audit function, the Audit Committee approved the audit manual framework and the internal audit plan for 2015; reviewed the internal audit reports and quarterly internal audit activities reports; and reviewed and monitored Management's responsiveness to the internal auditor's findings and recommendations through corrective action plans.

The internal auditor evaluates and contributes to the improvement of governance, risk management, and control processes. During 2014, guarantee issuance operations, treasury, and finance system implementation were audited. Audit results, which include the findings and recommendations of high and medium-risk observations, were reported to the Audit Committee with the corresponding corrective action plans. These action plans were monitored and validated by the internal auditor and reported to the Audit Committee and the Board through the quarterly audit update and quarterly management report.

Ensuring the effectiveness of the external audit process. The Audit Committee oversees the external auditor and recommends to the Board and the Contributors the appointment, reappointment, and removal of the external auditors. Deloitte & Touche was appointed as external auditor for the fiscal years 2014 to 2018 by the Contributors recommended by the Board. Based on the Audit Committee's recommendation, the Board approved the appointment. The Audit Committee reviewed and approved the engagement terms and audit fees for the external auditor, which were then approved by the Board.

REPORT OF THE INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE (ICRMC)

The Board is the highest internal control and risk management governing body in CGIF. Based on the recommendations of its Internal Control and Risk Management Committee (ICRMC), the Board establishes appropriate policies on internal control and assures itself that the system is functioning effectively. The ICRMC ensures that sound and effective systems of internal control and risk management are in place to safeguard CGIF's Contributors' investments and CGIF's assets, and that only sound guarantee and investment proposals are approved by the Board. These responsibilities are implemented at the management and operations levels by the chief risk officer, who reports to the ICRMC.

CGIF manages and controls all risks. Internal control and risk management in CGIF involve continuous activities of identifying, measuring, controlling, and reporting risk exposures. Given the nature of its guarantee business, CGIF is naturally heavily exposed to credit, market, and liquidity risks. As such, CGIF's internal control and risk management are predisposed toward, and prioritize, the management of these risks.

The ICRMC is composed of directors representing the Japan Bank for International Cooperation, the Korea Eximbank, and the Association of Southeast Asian Nations (ASEAN). The director representing Korea Eximbank serves as the ICRMC chair. The ICRMC met three times in 2014 and approved policies for internal control and risk management.

CGIF has a system of internal control and risk management that promotes and facilitates effective and efficient operations. The system enables CGIF to achieve its objectives; respond to business, financial, and operational risks; safeguard assets from inappropriate or improper use, loss, and fraud; and identify and manage liabilities. CGIF's internal control and risk management policies may be found in its operational policies and the various manuals and guidelines that are considered part of CGIF's risk management framework (RMF).

Several risk control-related amendments and new sections to the RMF were approved by the ICRMC and the Board in 2014. Among these are the following.

- (i.) **The ICRMC regular meeting on 15 April 2014.** The ICRMC made enhancements to the safeguard standards to include environmental and social impact framework for cases where CGIF guarantee will be provided

to a bond issued to refinance existing debt facilities of an existing project, and treasury guidelines particularly in the areas of counterparty credit risk management and foreign exchange risk management.

- (ii.) **The Board regular meeting on 6 August 2014.** The Board adopted new prudential limits to issuers in acceptable intermediate jurisdictions, namely: (a) aggregate exposure to any individual intermediate jurisdiction located outside of the ASEAN+3 region will be limited to 20% of CGIF's maximum guarantee capacity, and (b) aggregate exposure to all intermediate jurisdictions located outside of the ASEAN+3 region will be limited to 40% of CGIF's maximum guarantee capacity.
- (iii.) **The ICRMC regular meeting on 5 August 2014.** The ICRMC amended the following sections of the RMF: (a) Credit Guarantee Process, (b) Credit Guarantee Portfolio Management, (c) Risk Control Reporting Guidelines. The committee also adopted Group Classification Guidelines as a new section of the RMF and revised the Liquidity Stress Test Guidelines.
- (iv.) **The ICRMC electronic meeting on 24 October 2014.** The ICRMC adopted the Capital Adequacy Measurement Guidelines, and Operating Risk Management Manual with the revised Risk and Control and Self-Assessment Guidelines.
- (v.) **The ICRMC regular meeting on 26 November 2014.** The ICRMC further amended the following sections of the RMF: (a) Credit Guarantee Process, (b) Credit Guarantee Portfolio Management, and (c) Risk Control Reporting Guidelines. The committee also adopted the Credit Documents Electronic Filing Guidelines.

Credit Risk Management. The Credit Guarantee Process document of the RMF guides the management of credit risk in CGIF. As with general risk management, a feature of the credit guarantee process is the continual identification, measurement, control, and reporting of credit risk. From the initial stages of the guarantee deal, the Board approval stage, and up to the guarantee portfolio management stage, CGIF's Deal Operations Department (DOD) is directed to identify credit risk factors of borrowing entities. Portfolio concentration limits and borrower credit ratings, among others, are reviewed by the DOD at the initial stage of the deal.

The DOD is required to secure approval of CGIF's Guarantee and Investment Committee (GIC) before they advise a borrowing entity to formally apply for guarantee. It will submit a guarantee concept paper (GCP) to secure the approval of the GIC. At this stage, the GIC reviews a borrowing entity's risk

rating; its compliance to various credit risk control limits; and initially available information, particularly financials, business, and markets, of a borrowing entity. CGIF assesses the credit rating of a borrowing entity using a credit rating tool developed by one of the major international credit rating agencies.

A borrowing entity that applies for credit guarantee is subjected to a more thorough and in-depth credit risk assessment and due diligence review before a guarantee underwriting proposal is submitted to the GIC for its endorsement to the Board for approval. Part of the due diligence review is an on-site visit on the borrowing entity. The thorough review covers, among others, the borrower's risk rating, involvement in prohibited activities, integrity checks, banks-trade-courts checks, political exposures, credit warning signs, exposure limits, environmental and social impacts, ownership and management, financial condition and projections, business operations and markets, industry and macroeconomic conditions, and regulatory and legal considerations. CGIF's Risk Management Department reviews all GCPs and guarantee underwriting papers (GUPs) submitted for deliberation by, and approval of, the GIC.

In 2014, CGIF booked five bond guarantees. Once bond guarantees are booked, such accounts are monitored for adverse movements in their credit quality. CGIF's risk management system includes guidelines for the management of its portfolio of guarantees.

Investment book market risk and credit risk management. CGIF's capital resources are managed by the Asian Development Bank (ADB) as trustee following guidelines in CGIF's operational procedures, investment guidelines and treasury guidelines; and in ADB risk management and investment guidelines. CGIF's operational procedures specify that the primary objective of CGIF capital resources management is to protect the principal by maintaining a conservative exposure to the market, credit, and liquidity risks. Liquidity must always be available to meet potential calls on the guarantees issued so that all investments should be marketable within a reasonable time.

In 2014, CGIF capital resources were invested in US dollar-denominated fixed-income securities and in bank placements. Investments in fixed-income securities are carried as available-for-sale securities in CGIF's books. As such, movements in the market values of these securities will not be reflected under net income but will be accounted for in "other comprehensive income" in the financial statements.

CGIF's RMF limits the 95% 1-month value-at-risk of its portfolio of available-for-sale and held-for-trading securities to no more than 5% of CGIF equity. In addition to this control, unrealized loss of the investment portfolio is limited by

policy to no more than 1% of equity, and the investment portfolio's modified duration is limited by policy to no more than 5 years.

CGIF's investments should be rated by international credit rating agencies at least AA- for securities with more than 1-year term to maturity, and at least A-1 for securities with equal to or less than 1-year term to maturity.

Liquidity risk management. CGIF is liquid in so far as it has the ability to fund assets and meet obligations. As such, CGIF's liquidity redounds to the availability of resources to fund assets and to meet obligations. Liquidity risk refers to the possibility that CGIF finds itself short of funds for its short-term operational requirements, or unable to fund assets or meet obligations.

CGIF measures its liquidity risk by estimating liquidity gaps at each of the next 3 months. This exercise is conducted quarterly.

Liquidity stress tests in consideration of CGIF's guarantee portfolio as of the end of each quarter in 2014 indicate that sufficient liquidity can be raised by CGIF to service contingent guarantee claims.

Risk management of foreign exchange. CGIF shall provide foreign exchange hedges (to the extent possible) to cover foreign exchange exposures such as guarantee fees paid in a local currency and amortized over a period of time. Foreign exchange risk refers to a change in the dollar value of the guarantee fees in a local currency had these been already booked but not yet paid.

Operational risk management. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Potential loss may be in the form of financial loss, reputational loss, operational downtime or disruptions, and loss of information and/or damage to assets.

An operational risk management manual that includes updated risk and control self-assessment (RCSA) and other operating guidelines were approved in 2014. Among these are administrative orders and amendments for designation of CGIF signatories, extension of appointments, procurement, classification of information, housing advances, code of conduct, and business continuity plan.

To control operational risks, CGIF conducted its annual RCSA based on the revised guidelines. RCSA involves the assessment by each CGIF functional unit, or each staff, of the likelihood of CGIF incurring losses as a result of failures of internal processes, internal systems, or CGIF staff; or as a result of factors that are external to CGIF. RCSA in CGIF is pursuant to operational policies that specify (i) that an effective system of internal control depends on a thorough and regular assessment of the nature and extent of risks which CGIF is exposed to; and (ii) that all employees of CGIF have a collective and joint responsibility for ensuring the effectiveness of internal control and, in particular, for their respective accountability in achieving objectives they have been assigned.

Compliance risk. Compliance risk is the risk of noncompliance to CGIF's policies and operating guidelines. Such risk is mitigated by internal compliance and disclosure validation audits. Audit results of high and medium-risk observations are reported to the Audit Committee with the corresponding corrective action plans. The implementation of these action plans are reported quarterly to the Audit Committee and the Board.

Capital adequacy. CGIF's capacity to undertake its guarantee business depends on the adequacy of its capital. Insufficient capital puts CGIF at risk of a credit rating downgrade and the consequent loss of business or of profitability. Capital sufficiency is assured by policy that specifies that the aggregate amount of guarantees should be such that CGIF's leverage ratio does not exceed the maximum, 2.5:1. The Capital Adequacy Measurement Guidelines that were approved in 2014 specify the capital adequacy model to be used for computing CGIF's capital adequacy ratio, a metric of capital vis-à-vis total economic capital charge. CGIF's capital adequacy ratio as of end-2014 is above its floor.

REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE (NRC)

The Nomination and Remuneration Committee (NRC) consists of directors from the Ministry of Finance (MOF) of Japan, the China Eximbank, and the Asian Development Bank (ADB). The director from the MOF of Japan serves as the chairperson.

The NRC determines and recommends remuneration, pension, and other compensation to the senior executives of CGIF. Other duties include:

- (i.) having in place a succession plan for the Chairperson of the Board and the Chief Executive Officer (CEO);
- (ii.) making necessary recommendation to the Board for the continuation in service of executive staff of CGIF, in so far as the selection and appointment of these executives are responsibilities assigned to the NRC;
- (iii.) providing necessary information to the Board relating to matters concerning selection of executives to be included in CGIF's annual report; and
- (iv.) ensuring that the Chairperson of the NRC attends the MOC relating to the nomination and selection of the CEO.

In 2014, the NRC held two meetings on 5 August and 26 November in Jakarta, Indonesia, and Manila, Philippines respectively.

In the August meeting, a new proposal on the staff bonus scheme was proposed to the NRC after deliberations with various stakeholders. The NRC unanimously approved the proposal and recommended it to the Board for approval and implementation. The NRC also deliberated on and unanimously approved the proposal for a framework for the adjustment of staff annual salaries. This approval saw to the general adoption of ADB's approved annual average salary increase by CGIF. These annual salary adjustments shall be effected according to each corresponding staff level of both organizations.

REPORT OF THE CHIEF EXECUTIVE OFFICER (CEO)

Guarantee Operations

Macroeconomic and bond market overview. The global economy faced a challenging 2014 with a variety of threats from geopolitical conflicts, a health epidemic, to the end of the US Federal Reserve's Quantitative Easing 3 program. It also witnessed a sharp contraction in oil prices as weakened demand for this commodity was compounded by rising supply from nontraditional sources.

The US economy rebounded with the recovery of employment, retail spending, consumer confidence and manufacturing activities. However in other economies, challenges abounded. In the ASEAN+3 countries, the growth of the People's Republic of China continued to decelerate; Japan fell back into recession following an increase in sales tax and the Republic of Korea's growth slowed sharply in the fourth quarter. The Eurozone languished, gripped by austerity measures in some of the region's weaker economies.

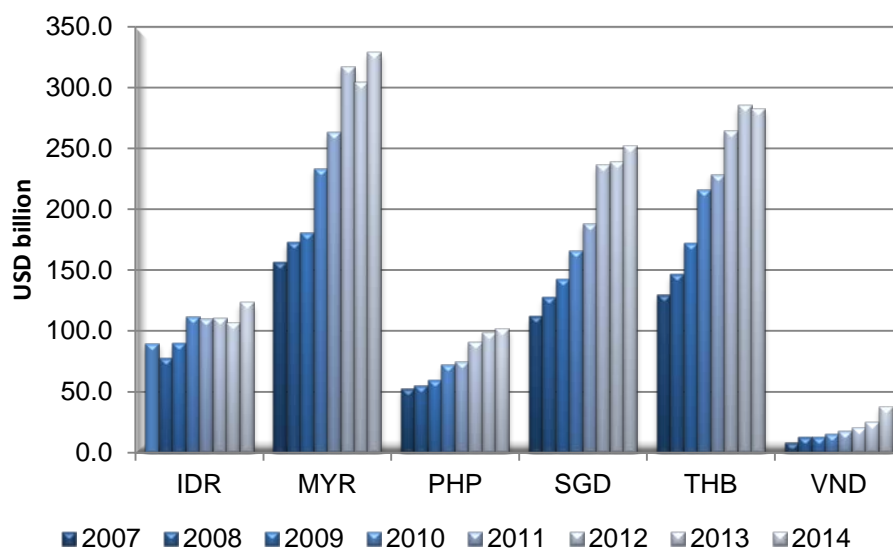
The ASEAN economies' performance was better with strong growth maintained by some economies while growth of other economies slowed in 2014. However, the region proved to be considerably better prepared for capital outflows with institutional reforms and the abundant amounts of reserves in hand. Sufficient domestic liquidity held interest rates at similar or lower levels across the region. Compared to other regions, ASEAN as a whole remains resilient as weaker currencies helped boost exports from the region. ASEAN's young population also offers a relatively firm base for the growth of consumption driven demand.

The local currency bond markets in ASEAN continued to grow albeit at different speeds relative to the growth of their economies. Based on year-on-year changes from December 2013 to December 2014, higher amounts of government bonds lifted the amounts of the Indonesian rupiah bonds outstanding to above 15.2% of gross domestic product (GDP) in Indonesia. The amounts of the Malaysian ringgit bonds and *sukuks* outstanding kept pace with the Malaysia's economic growth to keep both its government and corporate bond markets at the highest levels in ASEAN when measured against GDP of above 100%. For the Singapore dollar market, increased issuances of corporate bonds and to a lesser extent government bonds helped increased the amounts of the Singapore dollar bond outstanding by 3.8% to 81.9% of GDP. The Thai baht and Philippine peso markets saw significant increases from the corporate bond sector to make up for the decline in government bonds to register slight increases in the market size measured in US dollar terms at 76.3% and 36.8% of GDP. The region's most robust bond market expansion of occurred in Viet Nam, where a

considerable amount of government bonds were issued boosting its low base of 16.9% of GDP a year back. Notwithstanding this, the corporate bonds segment in Viet Nam remained muted contributing only 0.3% to the current total market size of 22.0% of GDP.

On the back of a stronger US dollars and higher interest rate expectations, corporate clients issued local currency bonds to lock in funding costs for the long term. This scenario is expected to continue in 2015.

Figure 1: LCY Bond Market Size



Source: Asian Bond Markets online Data from 2007 to 2014

Guarantees issued in 2014. Drawing from the momentum created from CGIF's inaugural guarantees in Thailand and Indonesia earlier, 2014 proved to be a highly successful year with the issuance of five guarantees. Many milestones were achieved with each transaction enabling CGIF to contribute to the markets around the ASEAN region. Below are highlights of these five guarantees issued.

CGIF guaranteed a follow-on tranche for PT BCA Finance's (BCAF) Indonesian rupiah bonds. On 18 March 2014, BCAF issued a 7.95% IDR120 billion, three-year Medium Term Note issuance in Indonesian local currency bond market to a Japanese insurance company, a new investor seeking to purchase BCAF's bonds in a follow-on issuance. This follows the successful issuance of a similar BCAF bond to another insurance company in Japan in 2013. This transaction is the result of the breakthrough achieved from the first issuance, which led to greater interest in the Indonesian rupiah bonds among conservative institutional investors in the region. With the successful first issuance at the

height of concerns for Indonesia's economy and credits, CGIF's endorsement of BCAAF and the Indonesian auto finance sector delivered a strong message to help bolster investors' confidence in Indonesia; which led to the issuance of a second tranche to another key investor from Japan.

CGIF issued a landmark guarantee in Singapore dollar bond market. On 21 August 2014, CGIF broke new ground in the Singapore dollar bond market with a milestone transaction by guaranteeing Kolao Holdings' SGD60 million bond issuance. Kolao is the listed parent of KOLAO Developing Co., Ltd, one of the largest private conglomerates in Lao People's Democratic Republic (Lao PDR) and a leading automobile and motorcycle distributor in the country. Using CGIF's financial strength and high international ratings, Kolao has been able to reach key institution investors in Singapore and raise attractively priced debt capital. Given the exceptionally strong growth of its automobile business predominantly in Lao PDR and increasingly in other Greater Mekong Region economies where funding sources are limited, enabling Kolao's access to the region's more developed bond markets like in Singapore is one of the key reasons why CGIF was established. This also marked the first time a Lao PDR-based company tapped the Singapore dollar bond market. CGIF's guarantee built a bridge for a company and investors from two opposite ends of ASEAN from the economic development perspective. In line with CGIF's mission of mobilizing capital across the ASEAN+3 region, CGIF helped deploy capital from markets where they are abundant to economies and companies that are in greatest need of it. This landmark bond squarely fulfills the aspirations of CGIF's Contributors.

CGIF breaks new ground with a 10-year guaranteed bond in Singapore. On 27 November 2014, Protelindo Finance BV, a subsidiary of PT Profesional Telekomunikasi Indonesia (Protelindo) issued an SGD180 million 3.25% bond with CGIF's guarantee to tap the Singapore dollar bond market, in a transaction of many firsts for Protelindo; its first cross border bond, its first 10-year bullet financing and its first attempt to reach out to long term investors in Singapore. Further, with this bond issue, Protelindo raised long-term funds to match the long-term nature of their tower assets and lease revenues, meeting one of the key objectives of the Asian Bond Markets Initiative as envisaged by CGIF's Contributors. With this transaction, CGIF has realized one of the key aspirations of its stakeholders—to get companies and investors in the region to commit to long term ASEAN-currency funds at fixed rates. The ability to raise long-term fixed rate funding boosts companies' confidence in making long-term investments when risks associated with refinancing and interest rate volatility dissipate. Developing this capability in local currency bond markets has been CGIF's key priority to lay the foundation stones for more long-term investments including those critically needed for infrastructure in the region.

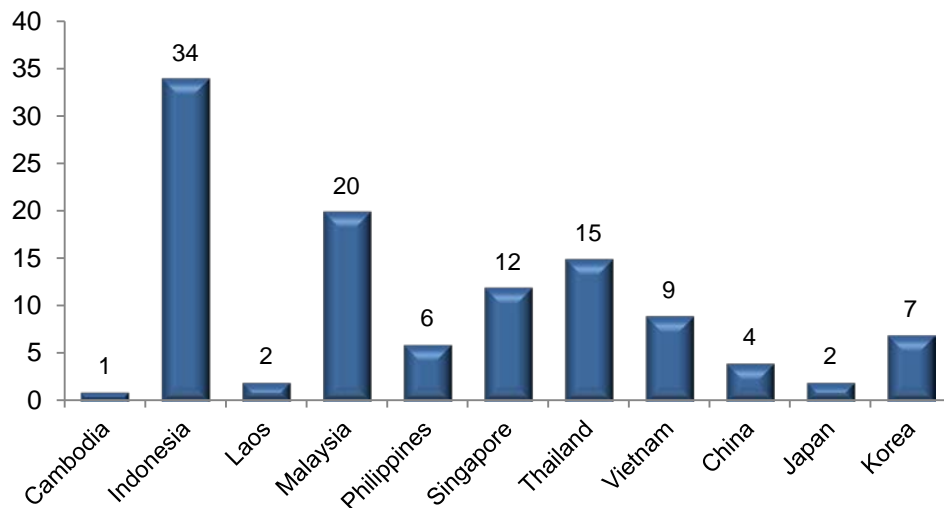
CGIF revives long-term funding in Viet Nam by guaranteeing a 10-year fixed rate Vietnamese dong bond, a first since 2007. Masan Consumer Holdings, a subsidiary of Masan Group Corporation issued a VND2.1 trillion bond in Viet Nam on 5 December 2014, marking the first time a nonbank corporate bond has been issued with 10-year tenure in recent years. In a market devoid of corporate issuers and long term bonds, this bond issuance is a very significant milestone for the development of Vietnamese dong bond market for both issuers and investors. Long-term bonds are important to allow companies to make the necessary investments funded by lower costs borrowing at fixed rates to further realize Viet Nam's economic potential. At the same time, long-term institutional investors—insurance companies in particular—have limited opportunities to invest for the longer term besides purchasing government bonds. With CGIF's guarantee, Masan Consumer Holdings bonds were strongly supported by these investors—some of which purchased corporate bonds for the first time.

CGIF helps another auto finance company access Singapore dollar bond market for the first time. In guaranteeing Astra Sedaya Finance's (ASF) SGD100 million 3-year Singapore dollar bonds issued on 18 December 2014, CGIF registered another important addition to its guarantee portfolio. ASF joins a list of strong companies, well-appreciated in their respective home markets but perhaps not as well-known regionally. This bond helped ASF diversify its funding sources at competitive rates as CGIF recognizes the need for well-managed companies to continue to make a variety of funding sources available as the demand for capital grows. Recognizing the strong long-term growth potential of the multifinance sector in Indonesia, CGIF, via the guarantees, hopes to encourage investors around the region to seriously consider investing in it. This will provide such investors an opportunity to support young Indonesians' aspirations of vehicle ownership and have an opportunity to enjoy the country's demographic dividends.

Geographical distributions of applicants and transactions. Since the start of its guarantee operations in May 2012, CGIF has succeeded in generating interest from 8 of the 10 ASEAN countries, as well as considerable amounts from the +3 countries. This is in line with the strategy to build a balanced portfolio across a diverse set of countries. Figure 2 shows the distribution of preliminary information packs among countries.

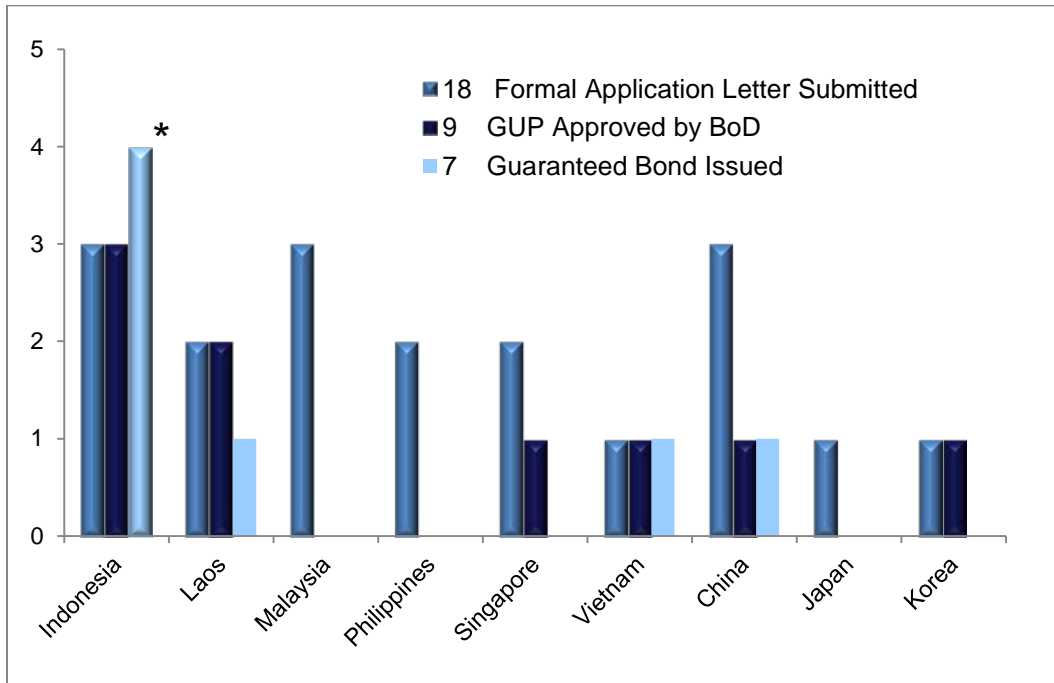
Figure 2: Preliminary Enquiries by Country

(Cumulative preliminary inquiries received, May 2012-December 2014)



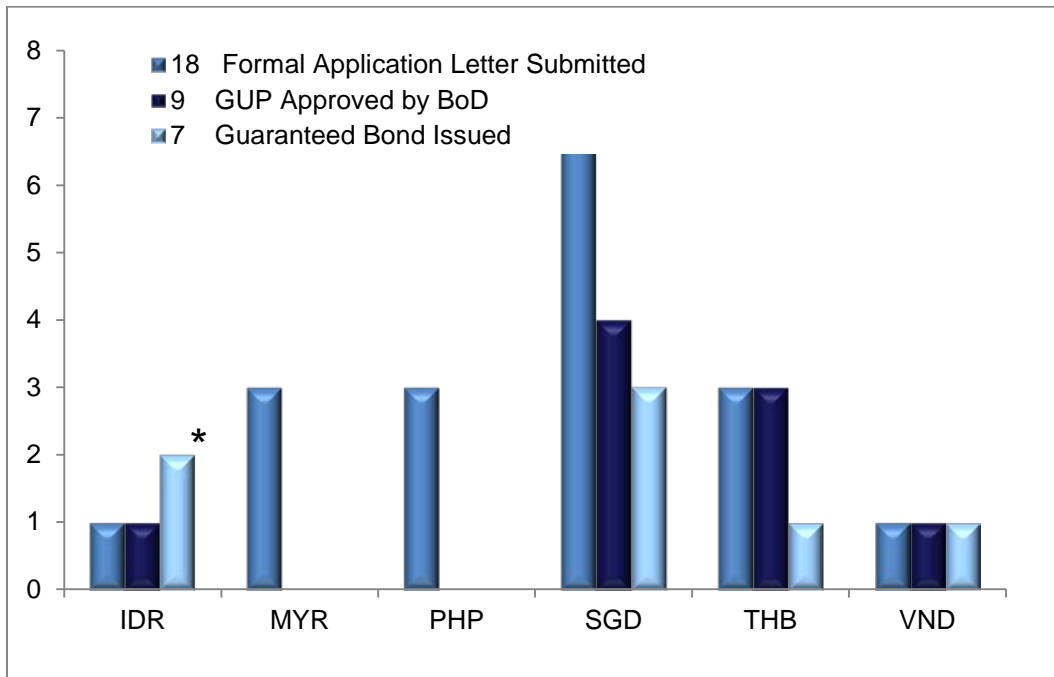
Due to different market dynamics across the region and CGIF's limited capacity preventing CGIF from working on many countries or markets at the same time, the nationality of issuers and issuing markets at the level of guarantee transactions that have been actually processed are more concentrated. However as CGIF continues to cultivate new market opportunities, such concentrations will be gradually alleviated. Figures 3 and 4 show the distribution of formal applicants, guarantee approvals, and guarantee issued by the nationality of issuers and issuing markets.

Figure 3: Formal Applicants, Guarantee Approvals and Guarantees Issued by Country
(Cumulative, May 2012-December 2014)



* including 2nd tranche of BCAF

Figure 4: Formal Applicants, Guarantee Approvals and Guarantees Issued by Currency
(Cumulative, May 2012-December 2014)



* including 2nd tranche of BCAF

Financial Control and Treasury

Financial control is the process of directing, monitoring, and measuring CGIF's financial resources so that it can help CGIF achieve its objectives in sound financial reporting, optimal managerial decision making, administrative effectiveness and efficiency, and compliance with rules and policies.

Since CGIF's establishment, CGIF had relied on the Asian Development Bank (ADB), its trustee, through ADB's Controller's Department (CTL) for core accounting services, which includes accounting for investments and guarantee transactions, processing of payments, preparation of quarterly and annual financial statements as well as coordination with ADB's Office of the Auditor General for the annual external audit. It had been established at the onset that this was an interim arrangement until CGIF was able to take over these functions.

With support of the ICRMC and the full Board, from late 2012 to the end of 2013, CGIF completed the implementation of CGIF's own accounting general ledger system and preparations for taking over of the accounting functions from ADB. CGIF took over the accounting and financial control function from ADB effective 1 January 2014

CGIF still relies on ADB Treasury's provision of accounting data for investments and treasury-related transactions. With the takeover of the other core accounting and financial control functions, CGIF is in control of the payment process. CGIF is also able to directly communicate with selected depository banks for the execution and confirmation of payments. As a consequence of gaining control and increased efficiency through direct control of the function, CGIF is able to produce its quarterly financial statements in a more timely manner, and in greater detail. CGIF is able to coordinate more effectively with its external auditor as a result of being the custodian of the records and processes. Finally, monitoring of budget utilization can now be performed monthly, and in a timely manner. Currently, CGIF produces monthly management reports and disseminates the reports internally.

After a full year of assuming financial control, all procedures and work flows from the inception of accounting events to the recording of transactions on the books have been reviewed and analyzed. The accounting manual will be revised and enhanced, as necessary.

Management of capital resources. ADB, as trustee, manages CGIF's capital resources under investment strategies and performance benchmarks agreed with CGIF. The primary objective in managing CGIF's capital resources is to protect the capital by maintaining a conservative exposure to the market, credit, and

liquidity risks. Investment guidelines that define risk parameters for the management of capital resources have been prepared in consultation with ADB and approved by the ICRMC and the full Board.

CGIF and ADB agreed on a strategic assets allocation (SAA), which is designed to optimize the investment allocation of CGIF's investment portfolio with the goal of maximizing the ratio of investment return to the combined risk of both its guarantee and investment portfolios. The SAA was approved by the Board in January 2015. With the allocations implemented, CGIF expects diversification of credit risks, enhanced liquidity, and a stable income.

Investment income in 2014. Realized income on investments for 2014 was \$8.77 million, representing a yield of 1.2% excluding changes in fair value. The yield in 2013 was 1.1% and the original target yield of 2014 was 1.2%. Table 1 provides a quarterly breakdown of investment income for the year 2014. ADB Treasury suggested 1.15% as a target yield for 2015 in consideration of conservative investment strategy under expectation of volatile markets after possible policy rate hike in late 2015.

Table 1: 2014 Investment Income

Investment Income (in \$ '000)	1Q	2Q	3Q	4Q	Year-to-date
Debt Securities	2,390	2,083	2,128	2,092	8,693
Time Deposits	4	4	25	48	81
Total	2,394	2,087	2,153	2,140	8,774

External transactions. CGIF may enter into derivative transactions for hedge against foreign exchange exposure and repo transactions for contingent liquidity requirements. Treasury guidelines which regulate risks and define procedure for the transactions with external counterparties were prepared in consultation with ADB and approved by the ICRMC and the Board. For the transactions, CGIF needs counterparties with completion of documentation, like International Swap Dealers Association (ISDA) and Global Master Repurchase Agreement (GMRA). In 2014, CGIF executed its first ISDA with the International Finance Corporation.

Staffing and Organization Structure

CGIF's approved number of staff for 2014 consisted of a complement of 26 positions (excluding secondees). The updated staff complement by category as of end of December 2014 is provided in Table 2.

Table 2: Staff Resources by Category

Staff Category	Positions
Executive	7
Professional	4
National/Administrative Staff	15
Total	26

At the end of 2014, a total of 26 positions have been filled, compared to 23 positions at the end of 2013. During 2014 a professional staff joined deal operations while two national staff joined internal audit and risk management, respectively.

The organization structure of CGIF is regularly reviewed to ensure effective mobilization of human resources.

Institutional Infrastructure

Development in institutional infrastructure during 2014 centered around the following key areas: (i) introduction of capital adequacy measurement guidelines, (ii) establishment of an e-filing system for the management of credit-related documentation, (iii) performing the full set of accounting function including preparation of quarterly financial statements, (iv) execution of the memorandum of understanding (now named Letter of Administrative Arrangements) with the Asian Development Bank (ADB) establishing core services in support of some of CGIF's requirements, (v) completion of set up of alternate data recovery center as part of CGIF's business continuity plan, and (vi) execution of CGIF's audit plans.

The relocation into ADB headquarters was initially scheduled sometime in the second half of 2014, but is now expected to be completed at the end of the first quarter of 2015. To cater to the anticipated growth in staff over the next 2 years, CGIF will be occupying a total office space in ADB of approximately 700 square meters (currently 530 square meters). During the third Board meeting held on 26–27 November 2014, the Board approved Management's proposal for a

relocation capital expenditure of \$106,000 for the fitting-out work and rearrangement of new office space.

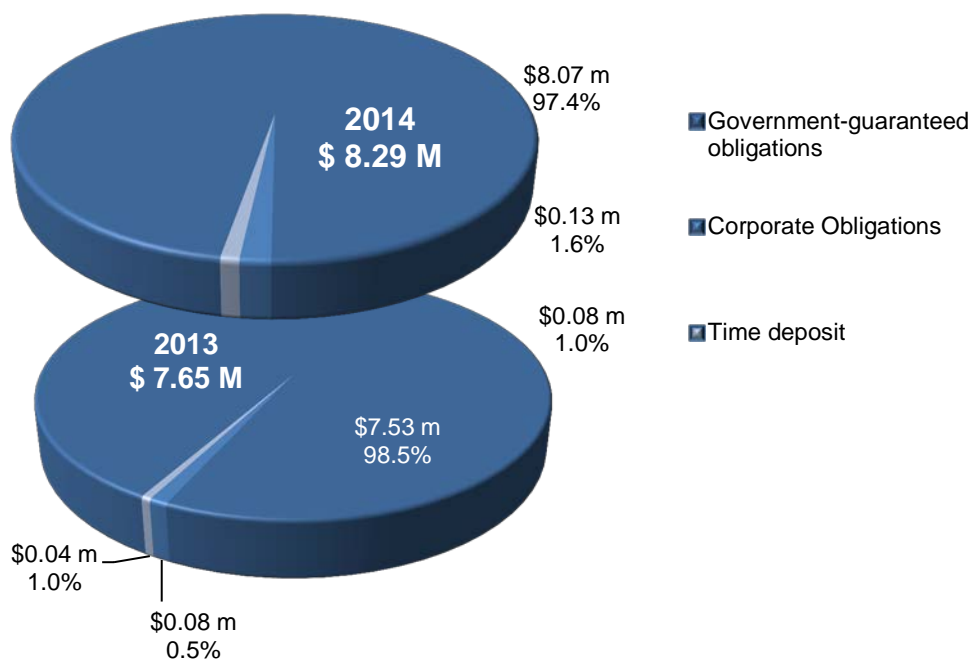
Budget

Actual budget utilization for 2014 amounted to \$5.79 million or about 75.1% of the total budget for 2014. The Board, in its meeting in November 2014, approved the 2015 budget of \$8.25 million, committing the necessary resources to support the 2015 work program. This reflects an increase of \$0.55 million or a modest 7.2% over the 2014 budget.

Financial Highlights

CGIF recorded a net income of \$3.55 million in 2014, 30.5% higher than 2013 on the back of a \$2.00 million or 24.6% growth in gross revenue. Of the total revenue of \$10.13 million, \$8.29 million was contributed by interest income from investments. Interest income from investment is detailed further in Chart 1.

Chart 1: Interest Income from Investment



CGIF's guarantee income in 2014 increased to \$1.35 million or by 219.5% from 2013 (\$0.42 million). This increase was contributed by five additional guarantees issued within the year. The aforementioned guarantees also resulted in the recognition of guarantee fee receivables and a guarantee liability of \$20.73 million and \$22.49 million, respectively.

CGIF's 2014 total expenses totaled \$6.54 million, composition of which is illustrated below in Chart 2.

Chart 2: Total Expenses

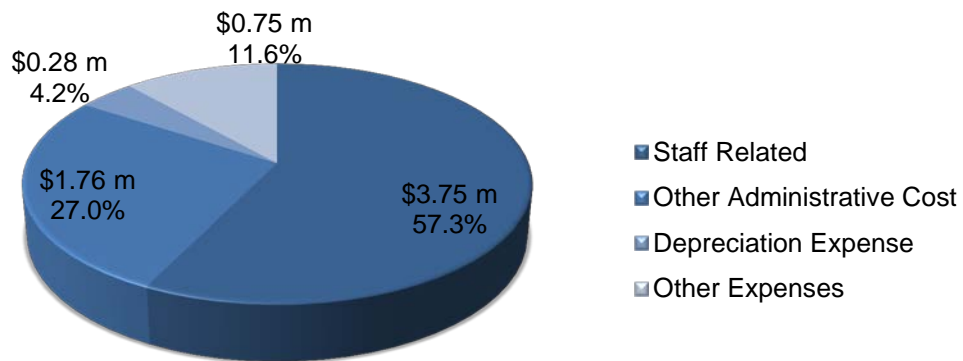
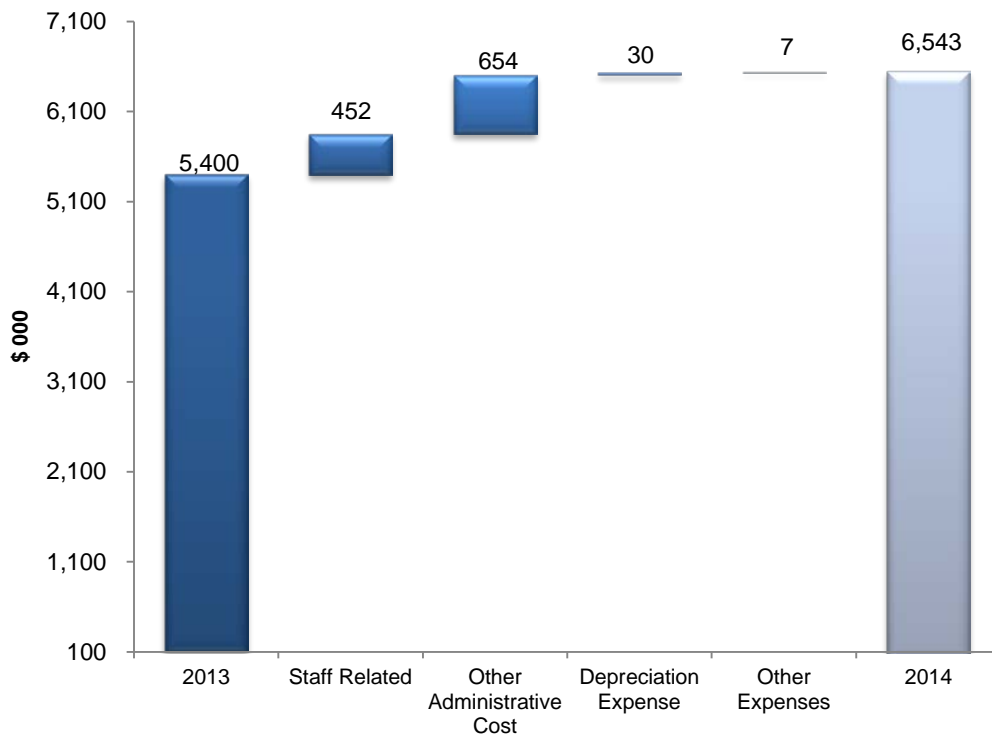


Chart 3: Components of Increase in Operating Expenses



The significant increase in operating expenses from \$5.40 million in 2013 to \$6.54 million in 2014 is illustrated by their major categories above in Chart 3. The increase in other administrative cost is mainly attributed to higher cost of legal services and short-term staff consultants.

Total investments increased by \$3.48 million, from \$709.09 million to \$712.86 million (year-on-year as of 31 December 2013 and 2014). The movement in total investments can be reconciled in Table 3.

Table 3: Movement in Total Investments

Description	\$ million
Purchase	529
Sale / maturities	(517)
Amortizations & Unrealized gains / loss	(8)
Net movement	4

Total members' equity increased to \$716.50 million (2013: \$715.23 million) contributed by a net unrealized loss on available for sale investments of \$2.28 million (for the period), and net income retained of \$3.55 million for 2014.

Appendix - Report of the External Auditor and Financial Statements'



**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 2014 AND 2013**

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

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

CONTENTS

	<u>PAGE</u>
Independent auditors' report	1 – 2
Statement of financial position	3
Statement of net income	4
Statement of comprehensive income	5
Statement of changes in members' equity	6
Statement of cash flows	7
Notes to financial statements	8 – 23

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF CREDIT GUARANTEE AND INVESTMENT FACILITY

Report on the Financial Statements

We have audited the accompanying financial statements of Credit Guarantee and Investment Facility, which comprise the statement of financial position as at 31 December 2014 and 2013 and the statement of net income, the statement of comprehensive income, statement of changes in members' equity and statement of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Credit Guarantee and Investment Facility as at 31 December 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.


Public Accountants and
Chartered Accountants

Singapore
21 April 2015

CREDIT GUARANTEE AND INVESTMENT FACILITY
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2014 and 2013
Expressed in Thousands of United States Dollars

	NOTES	2014	2013
ASSETS			
CASH		1,905	3,053
INVESTMENTS	4	712,856	709,374
ACCRUED INTEREST INCOME	4	4,150	3,226
GUARANTEE FEE RECEIVABLE	5	20,732	1,183
FURNITURES, FIXTURES AND EQUIPMENT, NET	6	204	564
INTANGIBLE ASSETS, NET	7	302	205
OTHER ASSETS	8	337	368
TOTAL ASSETS		740,486	717,973
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES			
GUARANTEE LIABILITY	5	22,499	1,765
UNEARNED INTEREST INCOME - GUARANTEES		11	4
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	9	777	272
OTHER LIABILITIES	10	700	700
TOTAL LIABILITIES		23,987	2,741
MEMBERS' EQUITY			
CAPITAL STOCK			
SUBSCRIBED CAPITAL	11	700,000	700,000
RETAINED EARNINGS		3,548	2,718
RESERVE	12	13,359	10,641
UNREALIZED (LOSS) GAIN IN FAIR VALUES OF AVAILABLE FOR SALE	4	(408)	1,873
TOTAL MEMBERS' EQUITY		716,499	715,232
TOTAL LIABILITIES AND MEMBERS' EQUITY		740,486	717,973

CREDIT GUARANTEE AND INVESTMENT FACILITY
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)
STATEMENT OF NET INCOME
For the years ended 31 December 2014 and 2013
Expressed in Thousands of United States Dollars

	NOTES	2014	2013
REVENUE			
GUARANTEE FEES	5	1,322	419
INTEREST INCOME	13	8,310	7,648
TRADING GAIN FROM SECURITIES	4	487	-
MISCELLANEOUS INCOME		13	65
GROSS REVENUE		10,132	8,132
EXPENSES			
ADMINISTRATIVE AND OPERATIONAL EXPENSES	14	5,787	4,651
FINANCIAL EXPENSES		56	49
MISCELLANEOUS EXPENSES	10	700	700
TOTAL EXPENSES		6,543	5,400
NET OPERATING INCOME		3,589	2,732
LOSS FROM FOREIGN EXCHANGE		(41)	(14)
NET INCOME		3,548	2,718

CREDIT GUARANTEE AND INVESTMENT FACILITY
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)
STATEMENT OF COMPREHENSIVE INCOME
For the years ended 31 December 2014 and 2013
Expressed in Thousands of United States Dollars

	NOTES	2014	2013
NET INCOME		3,548	2,718
OTHER COMPREHENSIVE INCOME			
ITEM THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME:			
NET UNREALIZED (LOSS) IN FAIR VALUES OF AVAILABLE FOR SALE	4	(2,281)	(1,347)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,267	1,371

CREDIT GUARANTEE AND INVESTMENT FACILITY
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)
STATEMENT OF CHANGES IN EQUITY
For the years ended 31 December 2014 and 2013
Expressed in Thousands of United States Dollars

	Subscribed Capital	Unrealized G/L on AFS Investment	Reserve	Retained Earnings	Total Members' Equity
BALANCE, 1 JANUARY 2013	700,000	3,220	6,532	4,109	713,861
NET INCOME FOR THE YEAR				2,718	2,718
ALLOCATION OF PRIOR YEAR INCOME TO RESERVE			4,109	(4,109)	-
OTHER COMPREHENSIVE INCOME (LOSS)					
NET UNREALIZED INVESTMENT HOLDING LOSS					
DURING THE YEAR		(1,347)			(1,347)
BALANCE, 31 DECEMBER 2013	700,000	1,873	10,641	2,718	715,232
NET INCOME FOR THE YEAR				3,548	3,548
ALLOCATION OF PRIOR YEAR INCOME TO RESERVE			2,718	(2,718)	-
OTHER COMPREHENSIVE INCOME (LOSS)					
NET UNREALIZED INVESTMENT HOLDING LOSS					
DURING THE YEAR		(2,281)			(2,281)
BALANCE, 31 DECEMBER 2014	700,000	(408)	13,359	3,548	716,499

CREDIT GUARANTEE AND INVESTMENT FACILITY
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)
STATEMENT OF CASHFLOWS
For the years ended 31 December 2014 and 2013
Expressed in Thousands of United States Dollars

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
GUARANTEE RELATED INCOME RECEIVED	2,377	487
OTHER INCOME RECEIVED	12	-
ADMINISTRATIVE AND OPERATIONAL EXPENSES PAID	(5,535)	(4,912)
FINANCIAL EXPENSES PAID	(56)	(49)
NET CASH RECEIVED FROM (PAID TO) OTHER ASSETS	699	699
NET CASH USED IN OPERATING ACTIVITIES	(3,202)	(3,775)
CASH FLOWS FROM INVESTING ACTIVITIES		
PURCHASES OF INVESTMENTS	(528,572)	(842,087)
SALES/MATURITIES OF INVESTMENTS	516,647	835,141
INTEREST RECEIVED ON INVESTMENTS	13,525	12,637
REALIZED TRADING GAIN	487	-
PURCHASE OF FURNITURE AND EQUIPMENT	(27)	(561)
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,060	5,130
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(6)	(11)
NET (DECREASE) INCREASE IN CASH	(1,148)	1,344
CASH AT THE BEGINNING OF THE YEAR	3,053	1,709
CASH AT THE END OF THE YEAR	1,905	3,053
RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
NET INCOME	3,548	2,718
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
DEPRECIATION AND AMORTIZATION	276	246
INTEREST INCOME ON INVESTMENTS	(8,287)	(7,645)
REALIZED TRADING GAIN	(487)	-
FX REVALUATION LOSS	7	14
CHANGE IN GUARANTEE FEE RECEIVABLE	(19,549)	(1,186)
CHANGE IN GUARANTEE LIABILITY	20,734	1,765
CHANGE IN UNEARNED INTEREST INCOME	7	4
CHANGE IN ACCOUNTS PAYABLE	69	(12)
CHANGE IN ACCRUED EXPENSES	449	146
CHANGE IN MISCELLANEOUS ASSETS	31	171
CHANGE IN MISCELLANEOUS LIABILITY	-	4
NET CASH USED IN OPERATING ACTIVITIES	(3,202)	(3,775)

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

**NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2014**

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 investment rated corporations 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 (i) the trustee, (ii) 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, Japan, People's Republic of China, and Republic of Korea (ASEAN+3) and ADB (see Note I). 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.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of CGIF have been prepared in accordance with International Financial Reporting Standards (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 measured using 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
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)
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 or deposit in an interest bearing money 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) and available for sale (AFS). 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.

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.

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 and 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.

Impairment of Financial Assets

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.

Unrealized losses on AFS securities are assessed to determine whether the impairment is deemed to be other than temporary. If the impairment is deemed to be other than temporary, the unrealized loss will be removed from Member's Equity and recognized in the Statement of Income even though the securities have not been derecognized. If in a subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the Statement of Income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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 the security is derecognized or disposed of, the unrealized gains or losses previously recognized in Member's Equity will be recognized in the Statement of Income.

Furniture, Fixtures and Equipment

All furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to 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.

The estimated useful lives by category 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, Server, Network, Others	4 years
Communication	7 years
	Over the
Building Improvement	lease period

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 and 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.

Impairment of Financial Assets

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.

Unrealized losses on AFS securities are assessed to determine whether the impairment is deemed to be other than temporary. If the impairment is deemed to be other than temporary, the unrealized loss will be removed from Member's Equity and recognized in the Statement of Income even though the securities have not been derecognized. If in a subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the Statement of Income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment been recognized.

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 the security is derecognized or disposed of, the unrealized gains or losses previously recognized in Member's Equity will be recognized in the Statement of Income.

Furniture, Fixtures and Equipment

All furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to 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.

The estimated useful lives by category 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, Server, Network, Others	4 years
Communication	7 years
	Over the
Building Improvement	lease period

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.

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 investment-rated 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.

Accounting and Reporting Developments

In 2009, the IASB issued IFRS 9 *Financial Instruments* as part of a comprehensive project to replace IAS 39 *Financial Instruments: Recognition and Measurement*, which was subsequently updated in 2010. IFRS 9 focuses on classification and measurement of financial assets where it retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 also added requirements for classification and measurement of financial liabilities, where the requirements related to the fair value option for financial liabilities were changed to address own credit risk. The amendments in November 2013 include (1) the

introduction of a new hedge accounting model, along with the disclosure requirements related to risk management activity; (2) an option for a reporting entity to present changes in its own credit risk within other comprehensive income; and (3) the removal of the mandatory January 1, 2015 effective date from IFRS 9, without removing the early-adoption provisions. CGIF is currently assessing the impact of this standard on its financial statements.

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement*. IFRS 13 is a single source of fair value measurement guidance that clarifies the definition of fair value, provides a clear framework for measuring fair value and enhances disclosures about fair value measurements. IFRS 13 does not introduce new fair value measurements; it specifies how an entity should disclose information about fair value measurements. The new guidance is effective from quarter ended 31 March 2013 for CGIF. See Note 4 for the required disclosure. The amendments resulting from *Annual Improvements to 2011 - 2013 Cycle (scope of portfolio exception in paragraph 52)* issued in December 2013 includes a scope of exception for measuring the fair value group of financial assets and financial liabilities on a net basis. This is referred to as the portfolio exception. The objective of said amendment is to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*. This is effective for annual period beginning on or after 1 July 2014. This latest amendment is not expected to have any impact on CGIF's financial statements.

In December 2011, the IASB issued Amendments to IAS 32 *Financial Instruments: Presentation* to provide clarification on the application of offsetting rules. These amendments clarify (1) the meaning of "currently has a legally enforceable right of set-off" and; (2) that some gross settlement systems may be considered equivalent to net settlement. These amendments require an entity to disclose information about rights of set-off and related arrangements and are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities, also issued in December 2011, require more extensive disclosures, including quantitative information about recognized financial instruments that are offset in the statement of financial position, as well as those recognized financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The new guidance is effective for annual periods beginning on or after 1 January 2013. Both amendments did not have any impact on CGIF's financial statements.

In May 2013, the IASB issued Amendments to IAS 36 *Impairment of Assets*. These narrow-scope amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. When developing IFRS13 *Fair Value Measurement*, the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets. The amendments published clarify that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The overall effect of the amendments is to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The amendments are effective for annual periods, beginning on or after 1 January 2014. Earlier application is permitted when the entity has already applied IFRS 13. This amendment does not have 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 are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. Both amendments are not expected to have any impact on CGIF's financial statements.

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 4 and 5. 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 3—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 and of CGIF's assets.

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 2014 and 2013 are as follows (in \$'000):

	2014	2013
Financial assets		
Cash and bank balances	\$ 1,905	\$ 3,053
AFS	712,856	709,374
Guarantee Fee and Other Receivables	20,952	1,392
Financial liability		
Accounts Payable and Accrued Expenses	\$ 777	\$ 272

Credit Risk

Pursuant to 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 guarantee borrowers 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 reviews from CGIF's RMD, and from an external advisor to the Board.

The profile of CGIF's guarantee portfolio is monitored and controlled so that leverage and concentrations are kept within policy limits. Current policy limits the amount of guarantees issued or approved to no more than CGIF's Maximum Guarantee Capacity (MGC), where MGC is the product of (A) CGIF's total paid-in capital plus retained earnings, less credit loss reserves, foreign exchange loss reserves, and all illiquid investments, and (B) the maximum leverage ratio of 2.5:1. CGIF's maximum leverage ratio is determined by the Meeting of Contributors on the recommendation of the CGIF Board. A system of concentration controls is in place. Guarantee exposure to any country and to any currency is limited to no more than 20% and 40%, respectively, of CGIF's MGC. Exposure to any particular sector may not exceed 30% of MGC, in aggregate; and 50% of the country exposure limit, within any country. Single borrower exposures, and single group exposures, may not exceed 20% of CGIF equity. CGIF's leverage ratio and concentration ratios are reported quarterly to the CGIF Board.

Market Risk

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

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

CGIF's Investment Guidelines restrict CGIF's investment portfolio duration to no more than 5 years. As of 31 December 2014, CGIF investment portfolio was invested with maturities up to 3.0 years (3.8 years – 2013), with an average effective duration of 1.50 years (1.1 years – 2013). CGIF investments are sensitive to interest rate movements. For CGIF's fixed income portfolio at end-December 2014, it is estimated that a 100 basis points upward parallel shift in the yield curve would cause an unrealized loss of about \$10.8 million (\$7.8 million – 2013).

CGIF is exposed to foreign exchange risk underlying foreign currency payables and receivables relating largely to CGIF's guarantees. CGIF policy requires the hedging, if possible, of foreign exchange risk relating to receivable guarantee fees. Subject to the availability of hedge markets, transactions costs and administrative cost, it is possible that some foreign exchange risk exposures may be left without hedge. Foreign exchange risk is managed within Board-approved limits. For CGIF's foreign exchange exposures at end-December 2014, it is estimated that a 10% adverse change in FX rates in the relevant foreign currency exposures will cause an instant loss of \$0.9 million (\$0.0 million – 2013).

The net carrying amounts of CGIF's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows (in „000):

Currency	Net Assets			
	2014		2013	
	Local Currency	USD Equivalent	Local Currency	USD Equivalent
PHP	(165)	(4)	97	2
IDR	1,574,912	127	845,485	69
MYR	(68)	(19)	(100)	(30)
JPY	(300)	(2)	-	-
THB	161	5	-	-
SGD	1,509	1,140	-	-
VND	169,902,847	7,944	-	-
EUR	(21)	(25)	-	-
CNY	-	-	(13)	(2)

Counterparty Risks

As CGIF may utilize derivative instruments hedge risk exposures, CGIF may be exposed to counterparty risk – 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 minimum credit rating standards.

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 2014 and 2013 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 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 2014					TOTAL
	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	
Financial assets						
Cash and Bank Balances	\$ 1,905					\$ 1,905
AFS	60,506	25,100	107,344	519,906	-	712,856
Guarantee Fee and Other Receivables	203	458	3,173	9,370	7,748	20,952
Total financial assets	\$ 62,614	\$ 25,558	\$ 110,517	\$ 529,276	\$ 7,748	\$ 735,713
Financial liabilities						
Accounts Payable and Accrued Expenses	\$ 120	\$ 263	\$ 285	\$ 109		\$ 777
Total financial liabilities	\$ 120	\$ 263	\$ 285	\$ 109	\$ -	\$ 777
Total maturity gap	\$ 62,494	\$ 25,295	\$ 110,232	\$ 529,167	\$ 7,748	\$ 734,936

31 December 2013						
	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						
Cash and Bank						
Balances	\$ 3,053					\$ 3,053
AFS	8,001	49,992	286,330	365,051		709,374
Guarantee Fee and						
Other Receivables	62	348	436	546		1,392
Total financial assets	\$ 11,116	\$ 50,340	\$ 286,766	\$ 365,597	\$ -	\$ 713,819
Financial liabilities						
Accounts Payable and						
Accrued Expenses	\$ 84	\$ 63	\$ 13	\$ 112		\$ 272
Total financial liabilities	\$ 84	\$ 63	\$ 13	\$ 112	\$ -	\$ 272
Total maturity gap	\$ 11,032	\$ 50,277	\$ 286,753	\$ 365,485	\$ -	\$ 713,547

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, credit and liquidity risks. CGIF strives to maximize returns on the invested asset portfolio while minimizing volatility of investment income. CGIF capital resources are placed with its trustee, ADB.

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 4—INVESTMENTS

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

	2014	2013
Time Deposits	\$ 35,599	\$ 8,001
AFS		
Government-related-entity or		
government-guaranteed obligations	666,560	690,208
Corporate obligations	10,697	11,165
Total AFS	\$ 677,257	\$ 701,373
TOTAL INVESTMENT	\$ 712,856	\$ 709,374

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

The annualized rate of return on the average investments held during the year ended 31 December 2014, based on the portfolio held at the beginning and end of each month without the effect of change in fair value was 1.23% (1.08% - December 2013)

The estimated fair value and amortized cost of the investments by contractual maturity as of 31 December 2014 and 2013 are as follows (in \$'000):

	2014		2013	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in less than one year	\$ 192,950	\$ 192,569	\$ 344,323	\$ 344,191
Due in one to five years	519,906	520,696	365,051	363,311
TOTAL	<u>\$ 712,856</u>	<u>\$ 713,265</u>	<u>\$ 709,374</u>	<u>\$ 707,502</u>

Fair Value Disclosure

The fair value of the government-related-entity or government guaranteed and corporate obligations as of 31 December 2014 and 31 December 2013 was as follows (in \$'000):

	31 December 2014	Fair Value Measurements		
		Level 1	Level 2	Level 3
Government-related-entity or government-guaranteed obligations	<u>\$ 666,560</u>	<u>\$ 414,724</u>	<u>\$ 251,836</u>	<u>\$ -</u>
Corporate obligations	<u>\$ 10,697</u>	<u>\$ 10,697</u>	<u>\$ -</u>	<u>\$ -</u>

	31 December 2013	Fair Value Measurements		
		Level 1	Level 2	Level 3
Government-related-entity or government-guaranteed obligations	<u>\$ 690,208</u>	<u>\$ 322,361</u>	<u>\$ 317,847</u>	<u>\$ 50,000</u>
Corporate obligations	<u>\$ 11,165</u>	<u>\$ 11,165</u>	<u>\$ -</u>	<u>\$ -</u>

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.

ADB as CGIF's Trustee manages CGIF's investments in liquid assets which are governed by the CGIF Operational Policies and Investment Guidelines approved by the CGIF Board of Directors, and 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.

For the year ended 31 December 2014 no transfer from Level 2 to Level 1 was done (\$25,586 - for the year ended 31 December 2013). One financial instrument that was transferred out of Level 3 to Level 2 amounting to \$50,000 (no transfers – for the year ended 31 December 2013) matured this year. The inter-level transfer is attributed to the availability of observable inputs.

The following tables present the changes in CGIF's Level 3 investments for the years ended 31 December 2014 and 2013 (in \$'000).

	Government or government-guaranteed obligations	
	2014	2013
Balance, beginning of the year	\$ 50,000	\$ 49,988
Total gains (losses) - (realized/unrealized)		
Included in earnings (or changes in net assets)	-	-
Included in other comprehensive income	-	-
Accumulated Translation Adjustments	-	-
Unrealized Holdings Gains (Losses)	24	12
Purchases	-	50,000
Sales/ Maturities	-	(50,000)
Settlement and others	-	-
Transfers into Level 3	-	-
Transfers out of Level 3	(50,024)	
Balance, end of the year	<u>\$ -</u>	<u>\$ 50,000</u>

The amount of total gains (losses) for the period recognized in other comprehensive income attributable to the change in net unrealized gains or losses relating to assets/liabilities still held at the reporting date

<u>\$ 24</u>	<u>\$ -</u>
--------------	-------------

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

	2014	2013
Time Deposits	\$ 65	\$ -
Available for Sale	4,085	3,226
TOTAL	<u>\$ 4,150</u>	<u>\$ 3,226</u>

NOTE 5 – GUARANTEES

As of 31 December 2014, CGIF has issued 7 guarantees (2 guarantees – 31 December 2013) covering bonds denominated in Thai Baht, Indonesian Rupiah, Singapore Dollar and Vietnamese Dong equivalent to \$645 million (\$139.7 million – 31 December 2013) at respective issuance dates. The total outstanding amount of the guarantees issued under the related bonds was \$616 million as of 31 December 2014 (\$125.1 million – 31 December 2013). The guarantees are inclusive of coupon payments.

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

31 December 2014				
	Local Currency		Total Obligation	USD Equivalent of Total Obligation
	Principal	Coupon		
THB	2,850,000	151,069	3,001,069	91,174
IDR	420,000,000	73,020,000	493,020,000	39,731
SGD	340,000	68,502	408,502	308,722
VND	2,100,000,000	1,672,175,342	3,772,175,342	176,369
				<u>615,996</u>

31 December 2013				
	Local Currency		Total Obligation	USD Equivalent of Total Obligation
	Principal	Coupon		
THB	2,850,000	251,413	3,101,413	94,475
IDR	300,000,000	73,800,000	373,800,000	30,579
				<u>125,054</u>

As of 31 December 2014, a guarantee liability of \$22.5 million (\$1.8 million - 31 December 2013) 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 \$20.7 million represents the present value of the stream of total guarantee fees expected to be received for the guarantee outstanding as of 31 December 2014 (\$1.2 million – 31 December 2013).

NOTE 6—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 2013	\$ 25	\$ 77	\$ 278	\$ 66	\$ 446
Additions	100	72		305	477
Disposals				(1)	(1)
Transfers	53		70	(123)	-
Reclassification					-
31 December 2013	\$ 178	\$ 149	\$ 348	\$ 247	\$ 922
Additions	3	4		1	8
Disposals					-
Transfers					
Reclassification				(242)	(242)
31 December 2014	\$ 181	\$ 153	\$ 348	\$ 6	\$ 688

	Office Furniture and Equipment	IT and Communications	Building Improvement	Work in Progress	TOTAL
Accumulated Depreciation/Amortization					
1 January 2013	\$ (4)	\$ (19)	\$ (159)	\$ -	\$ (182)
Depreciation	(22)	(29)			(51)
Amortization			(125)		(125)
Disposals					-
Transfers					
Reclassification					-
31 December 2013	\$ (26)	\$ (48)	\$ (284)	\$ -	\$ (358)
Depreciation	(25)	(36)			(61)
Amortization			(64)		(64)
Disposals					-
Transfers					
Reclassification					-
31 December 2014	\$ (51)	\$ (84)	\$ (348)	\$ -	\$ (483)
NET, 31 December 2014	\$ 130	\$ 69	\$ -	\$ 6	\$ 205
NET, 31 December 2013	\$ 152	\$ 101	\$ 64	\$ 247	\$ 564

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

NOTE 7—INTANGIBLE ASSETS

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

	Information Systems Software
Cost	
1 January 2013	\$ 242
Additions	87
Disposals	
Transfers	
Reclassification	
31 December 2013	\$ 329
Additions	6
Disposals	
Transfers	242
Reclassification	
31 December 2014	\$ 577

	<u>Information Systems Software</u>
Accumulated Amortization	
1 January 2013	\$ (54)
Amortization	(70)
Disposals	
Transfers	
Reclassification	
	<hr/>
31 December 2013	\$ (124)
Amortization	(151)
Disposals	
Transfers	
Reclassification	
31 December 2014	<u>\$ (275)</u>
NET, 31 December 2014	<u>\$ 302</u>
NET, 31 December 2013	<u>\$ 205</u>

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

NOTE 8—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 9—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses pertain to administrative and operating expenses incurred but not yet paid.

NOTE 10—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 2014. The amount of \$0.70 million pertaining to ADB's administration fee for 2013 was settled subsequently in April 2014.

NOTE 11—MEMBERS' EQUITY

CGIF did not receive any additional subscription in 2014.

The subscribed capital for CGIF as of 31 December 2014 and 2013 is as follows:

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

NOTE 12— RESERVE

The 2013 net income in retained earnings was allocated to Reserve as approved by the Contributors, per Resolution No. 2014-A-04, at the 29 May 2014 Meeting of Contributors.

NOTE 13— INTEREST INCOME

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

	2014	2013
Time Deposits	\$ 81	\$ 40
Investments on Available for Sale	8,206	7,605
Guarantee	23	2
Others	-	1
	<u>\$ 8,310</u>	<u>\$ 7,648</u>

NOTE 14— ADMINISTRATIVE AND OPERATIONAL EXPENSE

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

	2014	2013
Staff Related Expenses	\$ 3,746	\$ 3,295
Financial and Legal Services	863	327
Depreciation and Amortization	276	246
Business Travel	169	164
Meeting of Contributors and Board of Directors Expenses	121	99
Others	612	520
	<u>\$ 5,787</u>	<u>\$ 4,651</u>

© 2015 Credit Guarantee & Investment Facility

All rights reserved. Published in 2015

Printed in the Philippines



Credit Guarantee and Investment Facility

c/o Asian Development Bank

6 ADB Avenue, Mandaluyong, 1550, Metro Manila, Philippines

Tel: +632 683 1340

Fax: +632 683 1377

www.cgif-abmi.org