



Credit Guarantee &  
Investment Facility

An Asian Bond Markets Initiative



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**REACHING  
NEW HEIGHTS  
TOGETHER**

**ANNUAL  
REPORT  
2017**







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## ABBREVIATIONS

ABMI	- Asian Bond Markets Initiative
ADB	- Asian Development Bank
AfDB	- African Development Bank
AFS	- Available for Sale
AoA	- Articles of Agreement
ASEAN	- Association of Southeast Asian Nations
ASEAN+3	- ASEAN plus the People's Republic of China, Japan and the Republic of Korea
ASIFMA	- Asia Securities Industry & Financial Markets Association
BCLM	- Brunei Darussalam, Cambodia, Lao PDR and Myanmar
CAR	- Capital Ratio Adequacy
CGIF	- Credit Guarantee and Investment Facility
CPG	- Construction Period Guarantee
DAC	- Development Assistance Committee
EBRD	- European Bank for Reconstruction and Development
EIB	- European Investment Bank
ERMF	- Enterprise Risk Management Framework
ESMS	- Environmental and Social Management Systems
EXIM	- Export-Import Bank
FAL	- Formal Application Letter
GCP	- Guarantee Concept Paper
GDP	- Gross Domestic Product
GIC	- Guarantee and Investment Committee
GUP	- Guarantee Underwriting Proposal
IASB	- International Accounting Standards Board
IBRD	- International Bank for Reconstruction and Development
ICRMC	- Internal Control and Risk Management Committee
IDA	- International Development Assistance
IFC	- International Finance Corporation
IFRS	- International Financial Reporting Standards
IRR	- Internal Risk Rating

ISDA	- International Swaps and Derivatives Association
JBIC	- Japan Bank for International Cooperation
LCY	- Local Currency
MBS	- Medium-term Business Strategy
MGC	- Maximum Guarantee Capacity
MIGA	- Multilateral Investment Guarantee Agency
MOC	- Meeting of Contributors
MOF	- Ministry of Finance
NRC	- Nomination and Remuneration Committee
OP	- Operational Policies
PIDG	- Private Infrastructure Development Group
PIPs	- Preliminary Information Packs
RCSA	- Risk and Control Self-Assessment
SAA	- Strategic Asset Allocation
SJ	- Surbana Jurong
S&P	- Standard & Poor's
UST	- US Treasuries

## CURRENCY UNITS

IDR	- Indonesian rupiah
MYR	- Malaysian ringgit
PHP	- Philippine peso
SGD	- Singapore dollar
THB	- Thai baht
VND	- Vietnamese dong

### NOTE

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





# **CGIF AT A GLANCE**



# ◎ SUMMARY

## BACKGROUND

**T**he Credit Guarantee and Investment Facility (CGIF) was established by the ASEAN+3<sup>1</sup>, together with the Asian Development Bank (ADB), on 12 November 2010. The facility was part of the Asian Bond Markets Initiative (ABMI) to develop and strengthen local currency (LCY) and regional bond markets.

CGIF provides guarantees to corporate bonds mainly in local currencies issued by creditworthy ASEAN+3 domiciled corporations. It aims to help these companies secure long-term financing, reduce their dependency on short-term foreign currency borrowing, and address currency and maturity mismatches.

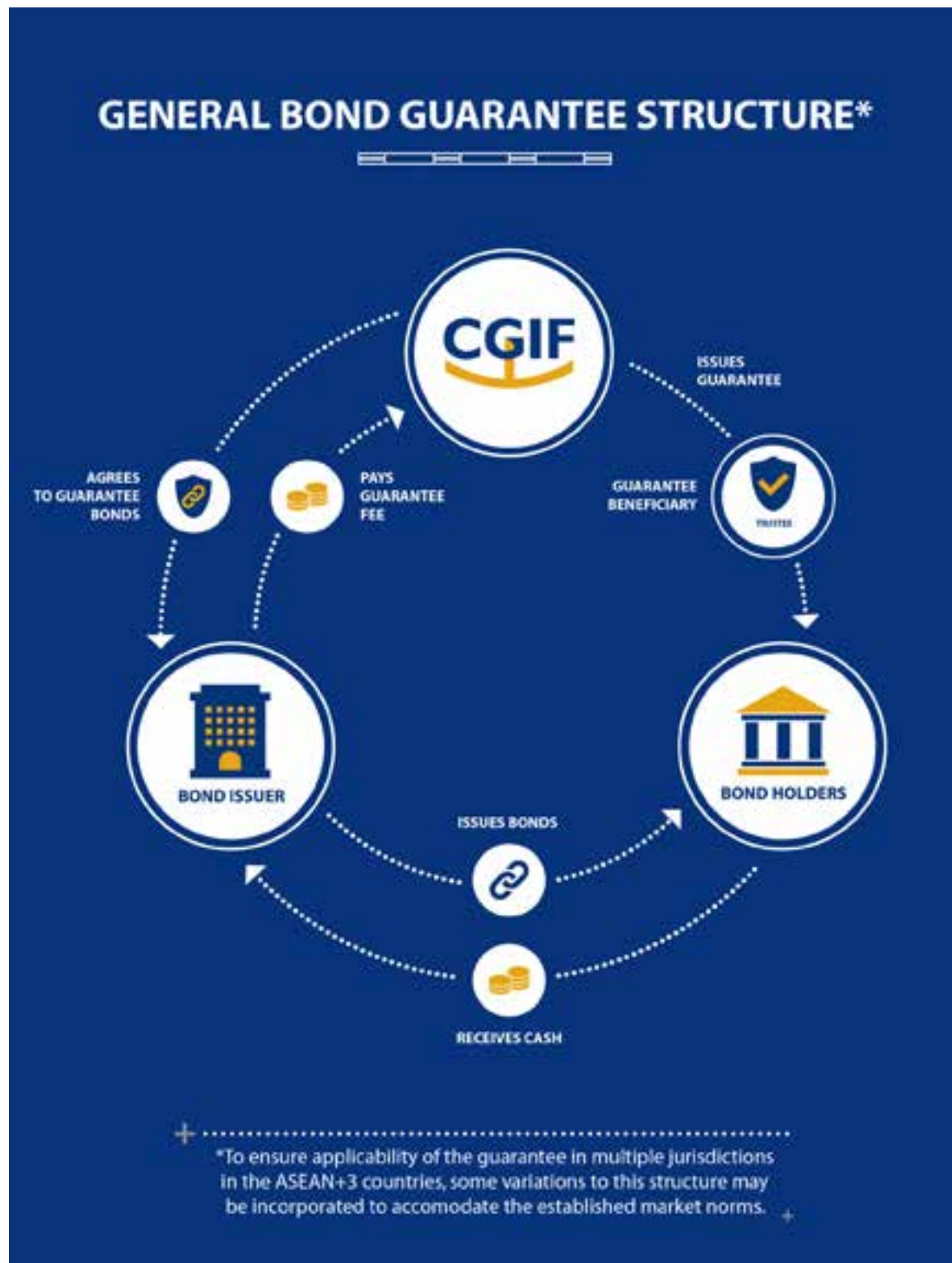
By promoting deep and liquid local currency and regional bond markets, it helps foster economic development, build the resilience of the financial markets, and prevent disruptions to the international financial order. By facilitating the access of creditworthy entities to local currency and regional markets, and by pushing the issuance of debt securities with longer-term maturities that match the gestation of investment projects, efficient allocation of savings within the Asia and Pacific region are achieved.

ADB is the trustee of CGIF and as such, in line with the provisions of the Articles of Agreement, holds in trust and manages all CGIF funds and other properties. In accordance with Article 10.3.2 of the Articles of Agreement, ADB, as the trustee of CGIF, has delegated the trustee's powers to the Meeting of Contributors, except for certain limited powers specified therein. The Meeting of Contributors, in turn, has delegated such powers to the Board of Directors.

This Annual Report for 2017 includes the Independent Auditor's report and the Financial Statements for 2017.

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

## OUR BUSINESS



## OUR CONTRIBUTORS

CGIF is owned by the governments of the ASEAN+3 (the member countries of the ASEAN, plus the People's Republic of China, Japan, and the Republic of Korea), and ADB. It was established with an initial paid-in capital of \$700 million. On December 6, 2017, the Contributors of CGIF agreed to increase its capital base from \$700 million to \$1.2 billion. The Contributors have until 2023 to fully pay the new subscription.

As of December 31, 2017 the paid-in capital of CGIF is \$703 million, divided into 7,003 shares, with a nominal value of \$100,000 each. Table 1 shows each Contributor's ownership rights in proportion to their capital contribution.

**TABLE 1: 2017 SHAREHOLDING STRUCTURE**

CGIF Contributors	Initial Paid-in Capital (\$)	Additional Paid-in Capital as of December 31, 2017 (\$)	Total Paid-in Capital as of December 31, 2017 (\$)	Percentage of Shareholdings
People's Republic of China	200,000,000		200,000,000	28.45%
Japan (Japan Bank for International Cooperation)	200,000,000		200,000,000	28.45%
Republic of Korea	100,000,000		100,000,000	14.22%
Brunei Darussalam	5,600,000		5,600,000	0.80%
Cambodia	100,000		100,000	0.01%
Indonesia	12,600,000		12,600,000	1.79%
Lao People's Democratic Republic	100,000		100,000	0.01%
Malaysia	12,600,000		12,600,000	1.79%
Republic of the Union of Myanmar	100,000		100,000	0.01%
Philippines	12,600,000	3,000,000	15,600,000	2.22%
Singapore	12,600,000		12,600,000	1.79%
Thailand	12,600,000		12,600,000	1.79%
Viet Nam	1,100,000		1,100,000	0.16%
Asian Development Bank	130,000,000		130,000,000	18.49%
<b>TOTAL</b>	<b>700,000,000</b>	<b>3,000,000</b>	<b>703,000,000</b>	<b>100.00%</b>

Notes: (i) Numbers may not sum up precisely because of roundings; (ii) On January 16, 2018, JBIC paid an additional capital of \$142.8 million.

## CGIF CREDIT RATINGS

As a credit guarantor, CGIF will unconditionally and irrevocably assume the liability of its guaranteed-bond issuers should these issuers default on obligations to their guaranteed-bond investors. The stronger its credit, the more capable CGIF becomes in enhancing bond issuers' credit, the more secure guaranteed-bond investors become, and the more borrowers CGIF can guarantee.

The credit strength of guarantors like CGIF is determined by conditions such as the size of its capital; the adequacy of capital relative to outstanding and prospective credit exposures; the likelihood of a guarantor to remain as a going concern; the commitment of the guarantor's principals; the soundness of a guarantor's risk management system;

the experience of a guarantor's management; the credit rating of CGIF's shareholders; and the strength of its governance structure.

The strength of a guarantor is an assessment of the aforementioned factors, among others, that is aggregated in a metric – the guarantor's credit rating. The following table summarizes CGIF's most recent credit ratings. In the global rating scale, CGIF is rated, AA, by S&P, and gAAA by RAM. In the ASEAN region, CGIF is given the highest possible rating, seaAAA, by RAM. In national ratings scales, CGIF is given the highest possible rating by RAM, MARC, TRIS, and Fitch (Indonesia). In the ASEAN+3 region, only Singapore has a sovereign rating (AAA, S&P and Fitch; Aaa, Moody's) that is better than CGIF's AA global rating from S&P.

**TABLE 2: CGIF CREDIT RATINGS**

Credit Rating Agency	Scale	Rating	Outlook	Date Issued
Standard & Poor's	Global Long-Term Global Short-Term National	AA A-1+ aaAAA	Stable	23 June 2017
RAM Ratings (Malaysia)	Global ASEAN	gAAA seaAAA	Stable	18 December 2017
MARC (Malaysia)	National	AAA	Stable	18 January 2018
TRIS Ratings (Thailand)	National	AAA	Stable	6 November 2017
Fitch Ratings (Indonesia)	National	AAA	Stable	14 September 2017



# ● MILESTONES

## 2010

**NOVEMBER** ●

- CGIF was established
- Articles of Agreement were effectuated
  - Operational Policies were adopted



## 2011

**OCTOBER** ●



- The Core Management team was set in place (Chief Executive Officer & Chief Risk Officer)
- Business Plan & Risk Management Framework development was started
  - Institutional infrastructure was set
  - Staff recruitment commenced
  - The office was initially opened

## 2012

**APRIL** ●

CGIF initial capital of \$700 mn was fully paid-in



**MARCH** ●

- Second tranche of the second guarantee issued
- Second tranche of IDR three-year Medium Term Notes issued by BCAF to accommodate additional demand from a Japanese investor



## 2014

● **DECEMBER**

- First tranche of the second guarantee issued
- First tranche of IDR three-year Medium-Term Notes issued by BCAF, auto-finance co. in Indonesia



**NOVEMBER** ●

- The scaling-up proposal, and the amendments of the Articles of Agreement and the Operating Procedures were approved in the Meeting of Contributors (MOC)



Guarantee operations were ready for commencement

- Business Plan & Risk Management Framework were approved by CGIF's Board of Directors (BOD)
- CGIF started receiving Preliminary Information Packs from potential clients



● **APRIL**

- First guarantee issued
- THB three-year bonds issued by Noble, an HK-based commodities supply chain manager

## 2013

**MAY** ●



● **OCTOBER**

First guarantee offer issued

# 2015

## ● AUGUST

- Third guarantee issued
- SGD three-year bonds issued by Kolao Holdings, an automobile and motorcycle distributor in Lao PDR

## ● NOVEMBER

- Fourth guarantee issued
- SGD ten-year bonds issued by Protelindo Finance BV, the largest-independent owner and operator of towers for wireless operators in Indonesia

## ● DECEMBER

- Fifth guarantee issued
- VND ten-year bonds issued by MasanConsumerHoldings, one of Viet Nam's largest private sector companies

## ● DECEMBER

- Sixth guarantee issued
- SGD three year bonds issue by PT Astra Sedaya Finance, a leading auto finance company in Indonesia

# 2016

## ● MARCH

- Ninth guarantee issued
- PHP ten-year bonds issued by AP Renewables, Inc. (APRI), a geothermal power company in the Philippines

## First tranche of the tenth guarantee issued

- IDR three-year bonds issued by PT Mitra Pinasthika Mustika Finance (MPMF), a multi-finance company in Indonesia

## ● FEBRUARY

## First and second tranches of the eighth guarantee issued

- VND five-year and ten-year bonds by Vingroup Joint Stock Company (Vingroup), Viet Nam's largest real estate company

## ● OCTOBER

- Seventh guarantee issued
- SGD ten-year bonds issued by Indorama Ventures Public Company Limited, a global leader in polyester

## ● APRIL

## Second tranche of the tenth guarantee issued

- Issuance of another IDR three-year bonds by MPMF

## ● MAY

- Cambodian Investors' Forum
- First event held by CGIF in Cambodia with the Ministry of Economy and Finance of Kingdom of Cambodia to spur the development of a local bond market

## ● JULY

## Construction Period Guarantee (CPG) launch

- CGIF launched a new guarantee product aimed to mitigate construction risks of greenfield infrastructure projects

# 2017

## ● NOVEMBER

## Twelfth guarantee issued

- THB five-year bonds issued by KNM Group Berhad (KNM), a Malaysian based leading global manufacturer of process equipment and processing units

## ● OCTOBER

## First Reinsurance Treaty

- Execution of a landmark reinsurance treaty with Munich Re and other commercial reinsurers to enable their risk participation in ASEAN local currency bonds

## ● JULY

## First and second tranches of eleventh guarantee issued

- SGD five-year and seven-year bonds issued by Fullerton Healthcare Corporation Limited (Fullerton), a provider of corporate healthcare solutions across Asia Pacific

## ● FEBRUARY

## First tranche of the thirteenth guarantee issued

- PHP five-year bonds by ASA Philippines Foundation Inc. ("ASA Philippines"), a leading microfinance organization in the Philippines and processing units

## ● JUNE

## Second tranche of the thirteenth guarantee issued

- Issuance of another tranche of five-year PHP bonds by ASA Philippines

## ● NOVEMBER

## Fourteenth guarantee issued

- VND five-year bonds by Mobile World Investment Corporation ("Mobile World"), one of the leading retail groups in Viet Nam

## ● DECEMBER

## Capital Increase Approval

- The authorized capital of CGIF was increased to \$1.2 billion, as approved by Super Majority of the existing Contributors

## Renewal of CGIF's Reinsurance Treaty

- The reinsurance treaty with commercial reinsurers led by Munich Re was renewed to cover new guarantees issued in 2018

## + ..... ◎ HIGHLIGHTS



*"This issuance is a milestone not only for us, but for the entire microfinance industry as well, as it has allowed us to access the funds that can enable us to offer more of the financing needed by the people at the bottom of our socio-economic pyramid."*

*-Mr. Kamrul Tarafder, CEO, ASA Philippines Foundation*

### **ASA PHILIPPINES FOUNDATION INC.**

ASA Philippines is a non-stock, non-profit corporation that specializes in microfinance with operations stretching across the Philippines. It is devoted to improving access to micro-loans for women entrepreneurs who are not being served by mainstream financiers. Aside from loans, it also offers other benefits to their members including medical expenses, reimbursements, scholarships, and training. The company is recognized as the largest microfinance organization in the Philippines with over 1.3 million active financially-marginalized women borrowers—mostly mothers.

On 10 February 2017, ASA Philippines issued five-year, PHP-denominated bond amounting to PHP 1 billion, enabled by CGIF's 75% guarantee (up to PHP

750 million). This transaction serves as a milestone achievement for CGIF as it was the first guarantee support given to a local currency microfinance bond in the ASEAN's bond markets. Following this success, ASA Philippines issued its second tranche of five-year, PHP-denominated bonds on 28 June 2017 with an issue size of PHP 500 million, again with CGIF's 75% guarantee.

The bond proceeds will further boost the microfinance activities of ASA Philippines, which is now able to access stable, long-term, fixed-rate financing via the PHP bond market as well as loans from the banking sector, progressing its commitment to help alleviate poverty in the country.

This bond transaction was awarded "Best LCY Microfinance Bond" by the Asset magazine.





*"This transaction demonstrates the positive development of the local bond market, with participation from reputable and well-recognized investors at an attractive fixed interest rates. This enables us to finance our M&A activities."*

*– Mr. Nguyen Duc Tai, Chairman of Mobile World*

## **MOBILE WORLD INVESTMENT CORPORATION**

Thegioididong.com, or simply Mobile World, is a multi-awarded and leading retail group of diversified product categories specializing in mobile phones and other consumer electronics. The company is actively engaged in distributing digital mobile devices across Viet Nam, and manages to reach 1,000,000 or more daily visitors to its websites making it one of the largest online electronics retailers as well.

Mobile World's inaugural bond issuance of VND 1.135 trillion at fixed rate bonds with a tenor of five years is guaranteed by CGIF at 100%. The issuance took place on 17 November 2017, and is the first transaction to be approved under CGIF's Alternative Guarantee

Approval Process (AGAP), under which approvals of guarantee transactions meeting certain conditions have been delegated by the Board to CGIF Management. Through CGIF's support, Mobile World was empowered to tap a new source of fixed rate long-term debt funding to match strategic M&A goals in addition to expanding its investor base.

This issuance represents the third VND-denominated corporate bond issue guaranteed by CGIF. The company joins a select few non-bank corporate bond issuers which have been able to tap the Vietnamese Dong bond market, contributing significant progress in developing the local bond market as a means of corporate funding.



## MEDIUM-TERM BUSINESS STRATEGY (MBS)

The CGIF Management has formulated its Medium-term Business Strategy (MBS), which was approved by the Board in August 2017, to clarify CGIF's roles, operational focus, country-specific business strategy and growth path in the next ten years.

The salient points of the MBS are as follows:

### EFFICIENT MOBILIZATION OF ASIAN SAVINGS

CGIF will continue aiming to achieve its original objective of catalyzing more stable and efficient mobilization of Asian savings in the region. CGIF's exclusive focus on bond markets, its strong rating and track record, and its wide regional reach put CGIF in a unique position to achieve this objective.

### PRIORITY TRANSACTIONS

CGIF will prioritize transactions which can accomplish the following bond market development objectives:

- Expansion of issuer base
- Expansion of investor base
- Extension of tenors
- Supporting infrastructure development
- Support for new asset classes
- Support for regional integration
- Support for market development

### PRIMARY MARKET FOCUS

CGIF's primary market focus will be on issuer support and market development activities in ASEAN6 (Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam) bond markets. However, this will gradually shift to more challenging BCLM (Brunei Darussalam,

Cambodia, Lao People's Democratic Republic (Laos) and Myanmar, Republic of the Union of (Myanmar)) markets to help create bond markets there.

### EXPAND CGIF'S GUARANTEE PRODUCT

CGIF has laid out plans to expand its guarantee product through wider application of partial guarantees and providing guarantees to new types of bond instruments such as project bonds, green bonds, and securitization.

### ACHIEVE A BALANCED PORTFOLIO

CGIF aims to achieve a balanced portfolio with respect to tenors from the viewpoints of development and sustainability objectives, targeting an Average Portfolio Tenor of 5 – 7 years for general corporate purpose bonds, while tenors exceeding 7 years will be avoided unless there are strong justifications backed by solid risk profiles.

### GROWTH STRATEGY

With an increase of paid-in capital to \$1.2 billion, CGIF will pursue the self-sustainable growth strategy without any further capital injection from the existing Contributors. The MBS also envisages that, in addition to further strengthening of capital through internal profit generation, CGIF may be able to increase guarantee capacity further to \$6 billion by 2026, if an increase of leverage to 3.5 times will become possible without affecting CGIF's credit ratings.

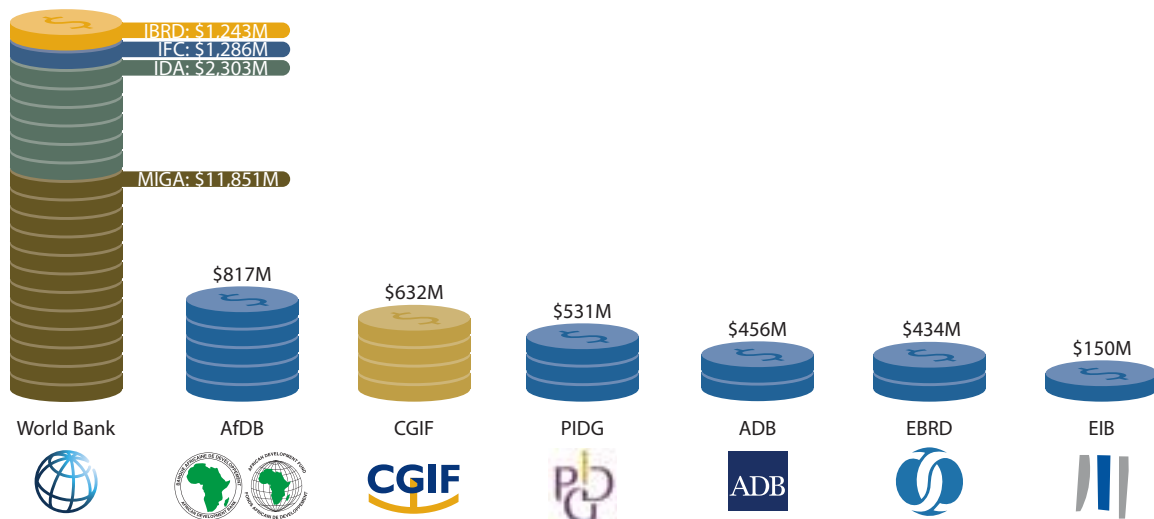
## CGIF RANKED 3RD IN PRIVATE FINANCE MOBILIZATION

- Guarantees provided by multilaterals play a major role (24%) in the private finance mobilization to developing countries by official development interventions in 2012-2015
- CGIF ranked 3rd in private finance mobilization by multilateral guarantees after the World Bank Group and African Development Bank (AfDB)

**FIGURE 1: TOTAL AMOUNTS MOBILIZED IN 2012-2015**



**FIGURE 2: AMOUNTS MOBILIZED BY MULTILATERAL GUARANTEES IN 2012-2015**



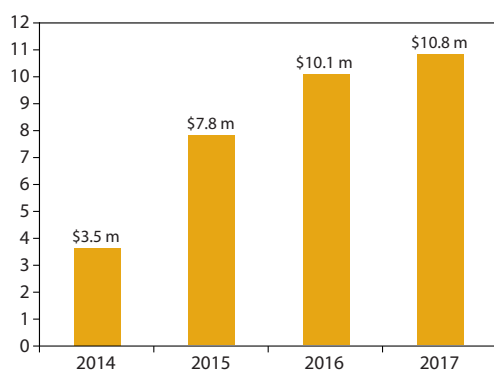
(Source: OECD "Amounts mobilized from the private Sector by Official Development Finance Interventions", July 2017)



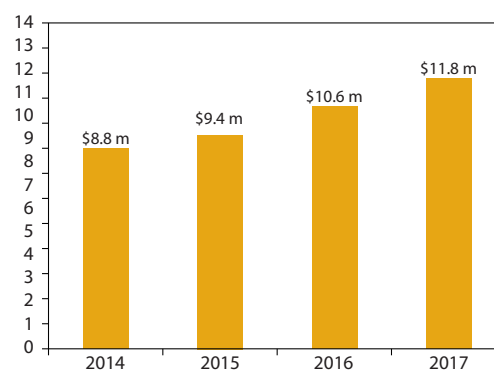
# © FINANCIAL SUMMARY



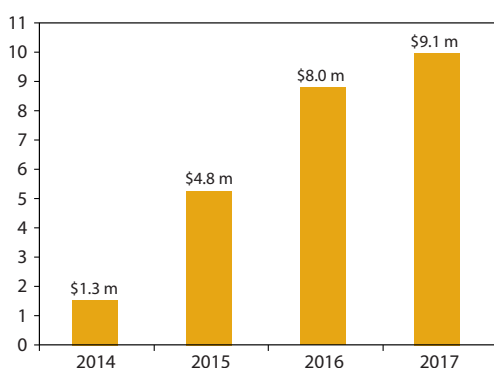
**FIGURE 3: NET INCOME**



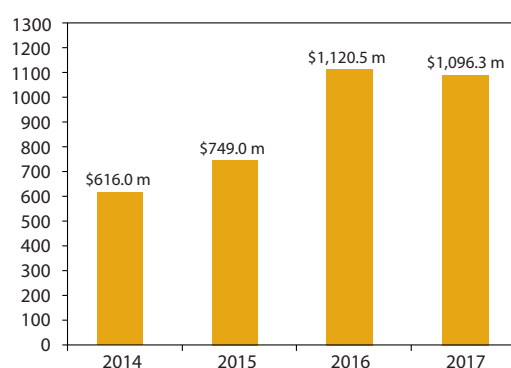
**FIGURE 4: INVESTMENT INCOME**



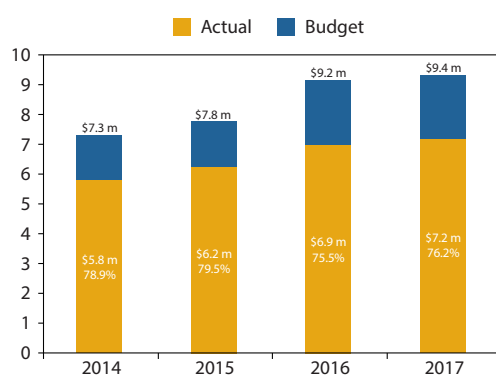
**FIGURE 5: GUARANTEE INCOME**



**FIGURE 6: OUTSTANDING GUARANTEE ISSUED**



**FIGURE 7: ACTUAL VS. BUDGET (OPERATING AND ADMINISTRATIVE EXPENSES)**



Notes: (i) Recognition of utilized amount is based on Budgeting Procedures Manual and may not equal to the reported expenses in the financial statements, (ii) Budget figures are excluding contingency amounts.

## FROM THE CHAIRMAN OF THE BOARD

It has been more than seven years since the ASEAN+3, together with ADB, established the Credit Guarantee and Investment Facility (CGIF).

CGIF was primarily established to provide credit enhancement with the purpose of enabling eligible corporates to access local currency bond markets and to avoid currency and maturity mismatches in the region. These mismatches were partly the cause of the 1997-1998 Asian Financial Crisis. CGIF was envisioned to play a vital role in helping the region build more resilient financial markets through the development of deep and liquid local currency bond markets in the region.

By year-end 2017, CGIF had issued nineteen guarantees, totaling to \$1.1 billion, to fourteen companies in five local currency bond markets from eight ASEAN+3 countries. This marked the successful completion of the initial phases of CGIF's operations.

As the company progressed to its next phases of operations, the Board increased their support for the Management's focus on strengthening the CGIF's role in developing local currency and regional bond markets in the region. The Board established, after extensive deliberation, CGIF's Medium-term Business Strategy (MBS) for the next ten years,

# MESSAGE



incorporating their hopes of having CGIF intensify its efforts in creating and developing bond markets in other ASEAN countries such as Brunei Darussalam, Cambodia, Lao PDR, and Myanmar, where functioning local currency bond markets are yet to take off.

The Board also thoroughly discussed options for addressing potential constraints in CGIF's guarantee capacity as it is nearing full utilization due to strong demand from corporates and projects. A proposal was subsequently agreed upon and on December 6, 2017, the Contributors agreed to raise CGIF's authorized capital from \$700 million to \$1.2 billion. This significant increase is a proof of confidence from the Contributors on what CGIF, given all that it has already achieved, can further accomplish in the future.

The Board continued to support new transactions and initiatives that can drive CGIF's unique role in developing the ASEAN local currency bond market. This requires further strengthening of CGIF's risk management systems and institutional capacity with constant improvement of its operational efficiency. From this view point, in 2017, the Board continued to guide CGIF Management in their efforts to improve CGIF's internal risk rating framework, a core element of CGIF's risk management system. The Board also helped CGIF streamline its operational process and improve efficiency by introducing the Alternative Guarantee Approval Process (AGAP) under which approvals of guarantee transactions meeting certain conditions are delegated by the Board to CGIF Management.

By revising CGIF's Investment Guidelines concerning management of its capital resources and also its hedging policy, the Board also supported optimization of CGIF's treasury functions as such functions are the backbone of CGIF's strong claim payment capability.

Although 2017 showed an upward trend in the local currency bond market across Emerging East Asia, the local currency corporate bond markets of ASEAN countries continue to face the same structural impediments and common challenges such as narrow issuer and investor base, limited tenors, slow financial integration, and lack of diversified bond instrument types. Due to this, CGIF's catalytic role will remain critical and relevant in the foreseeable future. CGIF is committed to addressing these structural impediments and common challenges and to contributing to the stability of bond markets. The Board, likewise, will continue to uphold its commitment to CGIF and its important mission.



**JIAN LI**

Chairman, Board of Directors

## FROM THE CHIEF EXECUTIVE OFFICER (CEO)

**2**017 marked the start of a new era for Credit Guarantee and Investment Facility (CGIF). In August, after a few years of intensive deliberation, the Board approved CGIF's Medium-term Business Strategy (MBS), which indicates priority areas and plots the company's growth scenario, will guide CGIF's operations in the next 10 years. Under the MBS, CGIF aims to promote (i) financial inclusion, by bringing new issuers to bond markets, and kick-starting bond markets in frontier countries which still don't have functioning local currency bond markets, (ii) financial deepening, by extending bond tenors for corporates/projects, and by broadening bond investor bases, (iii) financial integration, by promoting cross border fund raising as well as by mobilizing surplus savings in the ASEAN+3 region to its large investment needs, and (iv) financial innovation, by introducing new fixed income instruments such as project bonds, green bonds and securitization.

In December 2017, to empower CGIF in achieving the growth scenario envisaged under its MBS, the Contributors increased CGIF's capital from \$700 million to \$1.2 billion. This increase represents the Contributors' high regard for what CGIF has achieved in its short history, and their resounding confidence on what CGIF can achieve in the coming years. The \$500 million capital increase, which will be implemented in steps in the next few years, will enable CGIF to provide more guarantees, paving the way for a more diverse guarantee portfolio and for achieving developmental milestones. CGIF has started receiving injection of new capital from its Contributors in December 2017.

In parallel to securing the firm ground for future growth, CGIF also made steady progress in expanding its guarantee portfolio in 2017 by supporting

# MESSAGE



inaugural issuers from Philippines and Viet Nam. CGIF's support for ASA Philippines' PHP bonds was a significant milestone in providing micro-financiers access to the bond market. Not seen before, the success of ASA Philippines' bonds helps prove that bond markets can also help issuers from non-traditional sectors. CGIF's team's extensive due diligence effort to understand micro-finance and ASA Philippines' operations ultimately led to this landmark transaction that will boost funding for underserved women entrepreneurs. Meanwhile, CGIF's guarantee for Mobile World further cemented CGIF's role to help companies to access bonds for the first time in the nascent Vietnamese Dong bond market, which is one of the least developed corporate bond markets in the region. Supporting lesser known but well-managed companies with CGIF's endorsement meets the company's founding objectives as a regional guarantor.

CGIF's support for the development of corporate bond markets in frontier countries in the region, which yet to have functioning bond markets, also intensified in 2017. Its catalytic role of supporting regulators, of developing the investor base, and of finding suitable potential bond issuers proved to be helpful. The most notable progress was seen in Cambodia. In August 2017, regulations for corporate bonds were issued by the Securities and Exchange Commission of Cambodia, setting the stage for the first bond to be issued there in 2018 with the help of CGIF's guarantee.

In 2017, CGIF continued to work on a number of initiatives that aimed to bring new debt instruments to the region's bond markets, including the first securitization transaction, which is targeted to be closed in 2018, to support renewable energy development in the region. Our efforts to promote the use of project bonds to meet large infrastructure investment needs in the region were also furthered by the collaboration agreement with Surbana Jurong, the region's leading engineering company, under which both parties agreed to work together to enable greenfield infrastructure projects to access bond financing with the help of CGIF's Construction Period Guarantee (CPG).

The past year also marked the timely redemptions of three CGIF-guaranteed bonds issued in SGD and IDR in 2014, marking their successful completion. In the short five years of operations of CGIF, 19 guaranteed bonds have already been supported in five of the six available local currencies in the ASEAN bond markets, totaling over \$1.11 billion equivalent, without any claim event. The successful renewal of CGIF's reinsurance treaty for 2018 guarantees from the existing panel of reinsurers led by Munich Re showed the market's confidence in CGIF's successful track record.

On the back of the solid performance of CGIF's guarantee portfolio, guarantee fee income continued to grow in 2017. With further improvement in the return of investment of its capital resources and tight expenditure controls, CGIF's net income in 2017 again exceeded \$10 million in consecutive years, fortifying CGIF's financial strength. All rating agencies confirmed CGIF's high credit ratings in their annual rating reviews in 2017.

However, we cannot be complacent, despite our past achievements. We will make constant efforts to improve the quality as well as the efficiency of our operations, and to enhance our developmental roles. To fulfill our enlarged mandate under the MBS, we will further strengthen our capability to assess and manage risks, including appropriate safeguards against environmental and social impacts in our operations.

The work completed in the past few years has laid the foundation for an exciting 2018 and the years ahead. CGIF hopes to break new ground in the areas of securitization and green bonds, and to develop the frontier markets in the ASEAN. We will continue to work together with all of our stakeholders to realize our founders' vision of mobilizing the region's savings efficiently and effectively in order to finance its investment needs through local currency bond markets.

西村 潔  
**KIYOSHI NISHIMURA**  
Chief Executive Officer



# BUSINESS AND OPERATIONAL REVIEW

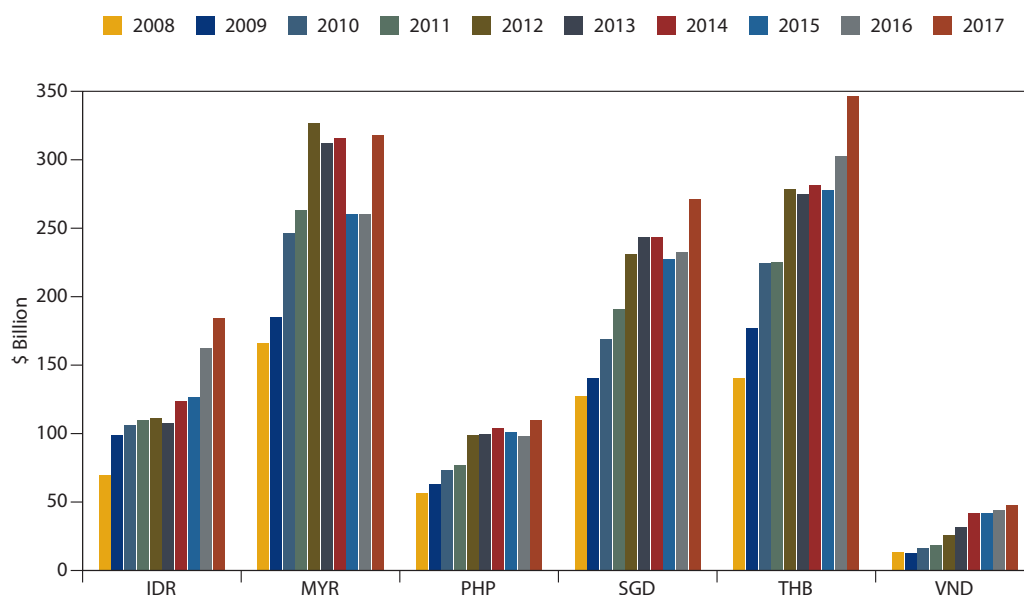
## **GUARANTEE OPERATIONS**

### **MACROECONOMIC AND BOND MARKET OVERVIEW**

**G**lobal economies continued to make positive strides in 2017 as world economic growth strengthened to 3.7% from 3.2% in 2016, according to estimates by the International Monetary Fund (IMF). Optimism has been growing with markets experiencing broad-based growth buoyed by rising investments and gains in manufacturing activities. In turn, this upward trajectory has allowed the United States (US) to begin normalizing its monetary policy. Asian markets have also benefitted from this strengthening outlook as increased economic activities fueled their growth momentum in 2017. IMF forecasts economic growth in ASEAN 5 to have reached 5.3% in 2017 following a 4.9% expansion in 2016.

ASEAN 6 saw faster economic growth vis-à-vis their levels in 2016. It was only in the Philippines where gross domestic product (GDP) growth slipped marginally, albeit, maintaining its rank as the fastest growing economy among its peers in the region. ASEAN 6 economies has grown resilient to cushion against financial market shocks amid the challenges it has to face in its domestic and external environments. This espouses the importance of having a deep, developed and well-functioning financial markets, including bond markets.

**FIGURE 8: LCY BOND MARKET SIZE**



At the end of 2017, the combined local currency outstanding bonds of ASEAN 6 markets climbed 8.6% year-on-year (y-o-y) to reach a size of \$1.3 trillion. Overall growth between government and corporate bond markets were broadly balanced. However, government bonds continued to account for a larger share at 68.4% of ASEAN 6 aggregate bond stock while corporate bonds took the remaining 31.6% share. As a share of GDP, LCY bond markets in four out of the six ASEAN markets posted increases in 2017 compared with 2016, due to gains in the share of bonds to GDP noted in Singapore, Philippines, Indonesia, and Malaysia. The largest bonds to GDP shares in ASEAN 6 were observed in Malaysia and Singapore, as an indication of the relative development of their respective bond markets compared with the rest of ASEAN 6.

Robust growth in government and corporate bond markets has led all six markets to post y-o-y expansions in their overall bond market size. Corporate bond market growth outpaced the growth in government bonds in all markets

except in Singapore, which saw a 1.4% decline in its stock of corporate bonds. Double digit y-o-y growth rates were recorded in the corporate bond markets of Indonesia (24.3%), Malaysia (14.9%), Philippines (14.4%), and Viet Nam (31.0%) while Thailand posted a modest 5.6% annual growth. These high growth rates however, came about due to low base effects. Nonetheless, moving forward, there is a greater impetus for corporates to continue tapping local currency funding as further hikes in the US interest rate is expected, and the USD continues to strengthen.

With economic gains poised to accelerate, companies demand for funding and capital will grow commensurately. It is important to ensure the continued development and improvement of corporate bond markets in ASEAN 6 as it still lags in terms of depth and size relative to their government counterpart. Challenges remain such as the lack of diversity in issuers owing to factors like corporate's reliance on bank loans for their funding needs and reluctance of bond investors to invest in unknown companies. A broader investor base is also needed as the

corporate bond market stands to benefit from the participation of foreign investors to help augment the existing domestic investor base. The use of credit enhancements such as that provided by CGIF can help in this environment, as it provides greater confidence for foreign investors, and it may encourage more companies to tap the bond market.

### **2017 GUARANTEE OPERATIONS**

In 2017, CGIF successfully guaranteed three bond issuances by two companies amounting to \$72.5 million in equivalent. Two of the bonds guaranteed were issued by a Philippines-based microfinance institution, ASA Philippines. The other issuer, a Viet Nam-based private company specializing mainly on consumer electronics products, Mobile World, successfully issued a VND 1.135 trillion fixed-rate bond.

CGIF's Board of Directors approved four guarantee proposals in 2017. A further guarantee proposal, Mobile World, was approved under the Alternative Guarantee Approval Process (AGAP), and issued in the same year. The remaining

approved transactions were carried over to 2018, representing a healthy pipeline of transactions.

### **CGIF GUARANTEE PORTFOLIO**

With the three guarantees provided by CGIF to new issuances, and with the successful redemption of two SGD-denominated guaranteed bonds and one IDR-denominated guaranteed bonds all issued in 2014, CGIF's total guarantee portfolio outstanding at end 2017 stood around \$855 million in equivalent (in terms of principle amount based on the exchange rate at issuance).

### **GEOGRAPHICAL DISTRIBUTION OF APPLICANTS AND TRANSACTIONS FOR 2017**

In 2017, a total of 40 new Preliminary Information Packs (PIPs), a considerable number of opportunities in the region, were received by CGIF. These came from nine out of the thirteen ASEAN+3 member countries, with the largest number of submissions coming from Viet Nam (refer to Figure 9).

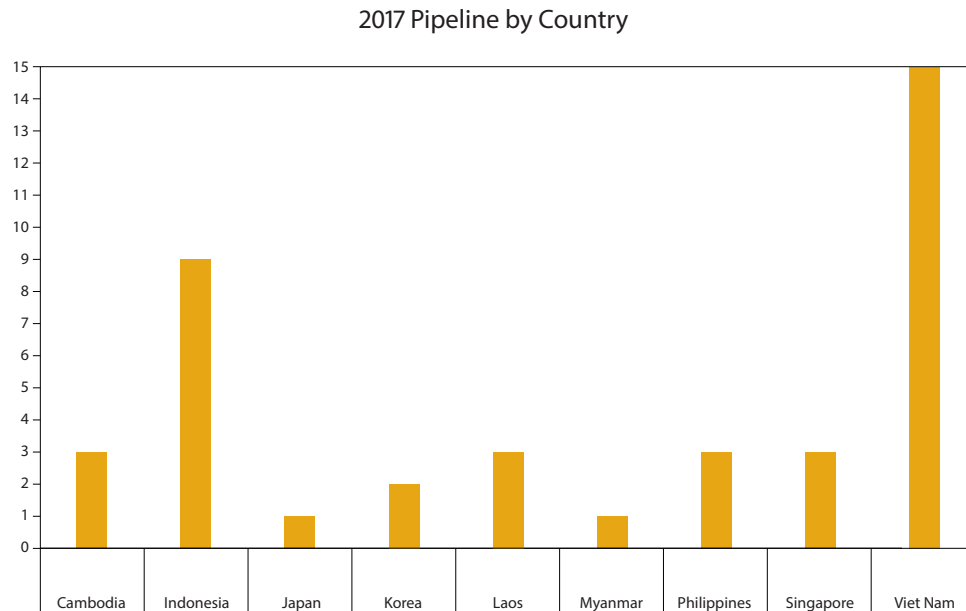
**TABLE 3: GUARANTEE PORTFOLIO AS OF 31 DECEMBER 2017**  
(EXCLUDING MATURED/REDEEMED ISSUANCES)

ISSUE DATE	ISSUER	COUNTRY OF ORIGIN (ISSUER)	BOND ISSUANCE VENUE (BOND MARKET)
17-NOV-17	MOBILE WORLD INVESTMENT CORPORATION	 VIET NAM	 VIET NAM
28-JUN-17	ASA PHILIPPINES FOUNDATION, INC.	 PHILIPPINES	 PHILIPPINES
10-FEB-17	ASA PHILIPPINES FOUNDATION, INC.	 PHILIPPINES	 PHILIPPINES
18-NOV-16	KNM GROUP BERHAD	 MALAYSIA	 THAILAND
07-JUL-16	FULLERTON HEALTHCARE CORPORATION	 SINGAPORE	 SINGAPORE
07-JUL-16	FULLERTON HEALTHCARE CORPORATION	 SINGAPORE	 SINGAPORE
28-APR-16	PT MITRA PINASTHIKA MUSTIKA	 INDONESIA	 INDONESIA
11-MAR-16	PT MITRA PINASTHIKA MUSTIKA	 INDONESIA	 INDONESIA
08-MAR-16	AP RENEWABLES, INC.	 PHILIPPINES	 PHILIPPINES
18-FEB-16	VINGROUP JOINT STOCK COMPANY	 VIET NAM	 VIET NAM
18-FEB-16	VINGROUP JOINT STOCK COMPANY	 VIET NAM	 VIET NAM
07-OCT-15	IVL SINGAPORE PTE. LTD.	 THAILAND	 SINGAPORE
05-DEC-14	MASAN CONSUMER CONSUMER HOLDINGS	 VIET NAM	 VIET NAM
27-NOV-14	PROTELINDO FINANCE BV*	 INDONESIA	 SINGAPORE

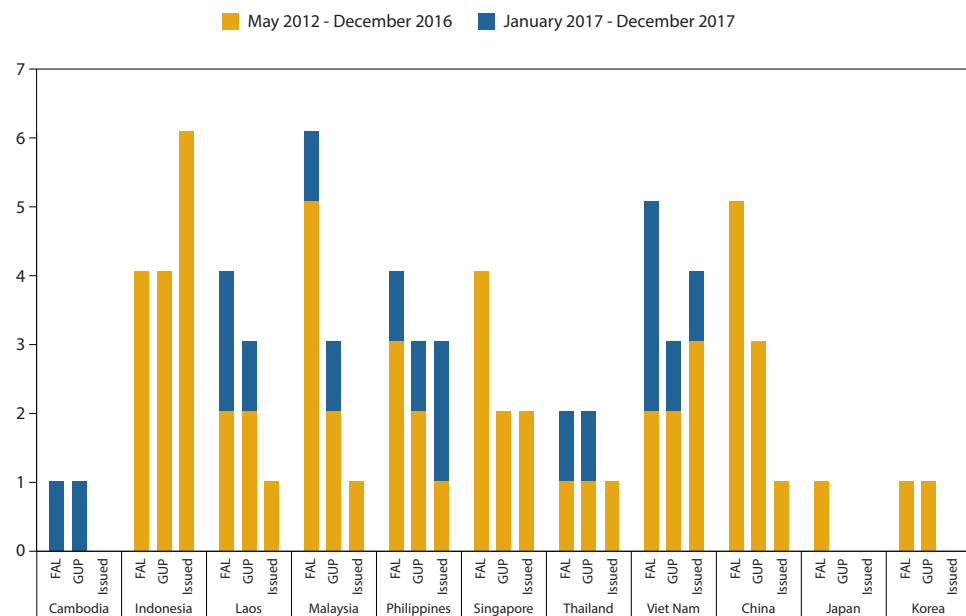
\* Change of issuer of the bonds from Protelindo Finance B.V. to PT Professional Telekomunikasi Indonesia effective 03 August 2016.

ISSUE SIZE (LCY)	ISSUE SIZE (USD EQUIVALENT)	PERCENTAGE GUARANTEED BY CGIF	ISSUE RATING (AGENCY)	TENOR
VIETNAMESE DONG 1,135 BILLION	\$50 MILLION	100%	UNRATED	5 YEARS
PHILIPPINE PESO 500 MILLION	\$10 MILLION	75%	UNRATED	5 YEARS
PHILIPPINE PESO 1.0 BILLION	\$20 MILLION	75%	UNRATED	5 YEARS
THAI BAHT 2.78 BILLION	\$78 MILLION	100%	AAA (TRIS RATING)	5 YEARS
SINGAPORE DOLLAR 50 MILLION	\$37 MILLION	100%	AA (S&P)	5 YEARS
SINGAPORE DOLLAR 50 MILLION	\$37 MILLION	100%	AA (S&P)	7 YEARS
INDONESIA RUPIAH 160 BILLION	\$12 MILLION	100%	UNRATED	3 YEARS
INDONESIA RUPIAH 140 BILLION	\$11 MILLION	100%	UNRATED	3 YEARS
PHILIPPINE PESO 10.7 BILLION	\$100 MILLION	UP TO PHP 4.7 BILLION RISK SHARING WITH ADB	UNRATED	10 YEARS
VIETNAMESE DONG 1,950 BILLION	\$87 MILLION	100%	UNRATED	5 YEARS
VIETNAMESE DONG 1,050 BILLION	\$47 MILLION	100%	UNRATED	10 YEARS
SINGAPORE DOLLAR 195 MILLION	\$137 MILLION	100%	AA (S&P)	10 YEARS
VIETNAMESE DONG 2,100 BILLION	\$98 MILLION	100%	UNRATED	10 YEARS
SINGAPORE DOLLAR 180 MILLION	\$138 MILLION	100%	AA (S&P)	10 YEARS

**FIGURE 9: PRELIMINARY INQUIRIES BY COUNTRY  
(PRELIMINARY INQUIRIES RECEIVED, YEAR 2017)**



**FIGURE 10: FORMAL APPLICANTS, GUARANTEE APPROVALS,  
AND GUARANTEES ISSUED BY COUNTRY (2012-2017)**

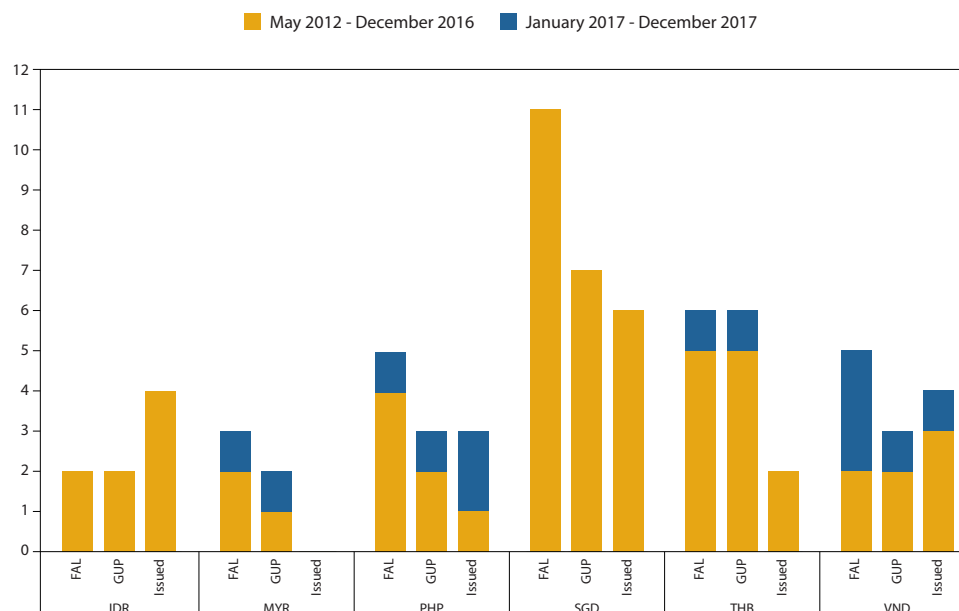


Notes:

<sup>1</sup> In instances where a company has issued multiple tranches, each tranche is recorded as an issued guarantee.

<sup>2</sup> "FAL" means Formal Application Letter received and "GUP" means Guarantee Underwriting Proposal approved.

**FIGURE 11: FORMAL APPLICANTS, GUARANTEE APPROVALS, AND GUARANTEES ISSUED BY CURRENCY (2012-2017)**



**Notes:**

- <sup>1</sup> In instances where a company has issued multiple tranches, each tranche is recorded as an issued guarantee. Multi-currency FAL and GUPs will be captured in the currency the applicant is most likely to issue.
- <sup>2</sup> "FAL" means Formal Application Letter received and "GUP" means Guarantee Underwriting Proposal approved.

## STAGE SETTING FOR THE FUTURE

The key milestones that CGIF achieved in 2017 enabled it to do more in the future. The most pertinent among them is the agreement of its Contributors to increase its capital base progressively from \$700 million to a targeted \$1.2 billion. Once completed, CGIF will be empowered to serve the region well into the future. The successful renewal of CGIF's reinsurance treaty for new guarantees in 2018 will continue to supplement its guarantee capacity moving forward.

CGIF's provision of feedback and support for the market consultation conference in Cambodia in the past year yielded results when bond market regulations were published in Cambodia. It set the stage for CGIF to back the first bond to be issued there—a core objective of a regional guarantor. Discussions about setting the stage for CGIF in supporting inaugural LCY bonds have proliferated to other frontier countries as well.

CGIF signed a collaboration agreement with Surbana Jurong (SJ), the region's leading engineering consultancy, to facilitate access to early stage projects, and to promote the use of local currency-denominated project bonds in the ASEAN region. This collaboration potentially allows for the deployment of CGIF's Construction Period Guarantee for some projects in the future. CGIF's push for project bonds included market capacity building initiatives — most notable of which was the successful "Indonesia Infrastructure Bonds Workshop" held in West Java, Indonesia under co-sponsorship of CGIF and Indonesia MOF on 26 July 2017. This event was used as an opportunity not only to raise market awareness about CGIF's activities, but also to position the importance of project bonds to long-term investors in Indonesia.

Including concurrent efforts to develop securitization and green bond transactions, all these accomplishments in 2017 set the stage for CGIF to meet its developmental mandate in years to come.

# FINANCIAL CONTROL AND TREASURY

## FINANCIAL CONTROL

In line with the growth of CGIF's operations, the number of transactions to be recorded in its book is increasing. Also, several new reporting requirements have been added in the job list of the Financial Control Department (FCD). The FCD supports CGIF's business in terms of accounting for investments and guarantee transactions, processing of payments and receipts, monitoring of assets, maintaining its general ledger system, preparing regular financial reports (including quarterly & annual financial reports), and coordinating with the external auditor for the exercise of annual audit.

While it still relies on the Treasury Department of the Asian Development Bank (ADB) for the provision of accounting data for investments and external treasury transactions, CGIF fully manages other financial control functions. CGIF also regularly reviews and analyzes the procedures and workflows from inception of accounting events to their full reflection on the books. Accordingly, the accounting manual is kept updated and enhanced along with the evolution of CGIF's operations.

## PREPARATION FOR NEW ACCOUNTING STANDARDS: IFRS 9

The International Accounting Standards Board (IASB) made public the final version of International Financial Reporting Standards 9 (IFRS 9). The IFRS 9 financial instruments cover requirements for the recognition and measurement, impairment, derecognition, and general hedge accounting of financial instruments. IFRS 9 becomes mandatory starting 1 January 2018, with early adoption permitted. Among others, the new impairment model introduced under IFRS 9 is expected to have a material impact in CGIF's financial reporting.

Previously, an entity's approach to impairment was based on the incurred model, which allows reporting a loss only when the loss is incurred or evidence of such loss is clearly materialized. However, the new approach requires an entity to calculate expected credit losses based on the credit status of underlying counterparty. Such requirement particularly applies to certain debt instruments, and financial guarantee contracts.

In order to assess the implication from and to prepare for the adoption of IFRS 9, CGIF formed a task force team consisting of staff from FCD, Treasury, and Risk Management. CGIF built its own model for the expected credit loss in consultation with the external auditor. IFRS 9 implementation was reported and expected credit loss computation guidelines were approved at the Board of Directors meetings in November 2017.

## TREASURY

The capital resources of CGIF are managed by ADB as trustee, under investment strategies and performance targets that have been set in agreement with CGIF. ADB also provides back office services for external transactions of CGIF, including, among others, settlement of all FX and derivatives transactions, and valuation report for its investment portfolio and external transactions. As indicated in the Operational Policies, ADB valuation reports are cross-checked by CGIF Treasury upon delivery.

## CAPITAL RESOURCES MANAGEMENT

CGIF and ADB have also agreed on the Strategic Assets Allocation (SAA), which is designed to optimize the investment allocation of capital resources of CGIF. The objective is to maximize the ratio of investment return to the combined

risk of both its guarantee and investment portfolios. Upon implementation of the SAA, CGIF expects diversification of credit risk, enhanced liquidity, and stable investment income stream. The SAA recommendations for portfolio asset allocation and duration of the portfolio are presented in Table 4. The table also

shows the transition of the allocation during the past three years. As the capital increase proposal was approved by Contributors in December 2017, the size of the capital to be managed will grow from \$700 million to \$1.2 billion by the end of 2023. The first new capital was already paid in December 2017.

**TABLE 4: TRANSITION OF ASSETS ALLOCATION OF INVESTMENT PORTFOLIO**

	UST 1-5Y	UST 5-10Y	AA&AAA	A-1	DURATION
SAA	0 - 30%	0 - 20%	40 - 80%	0 - 40%	2.0 - 4.0
31-Dec-2015	17%	0%	61%	32%	1.77
31-Dec-2016	12%	15%	43%	29%	2.58
31-Dec-2017	14%	12%	58%	15%	2.85

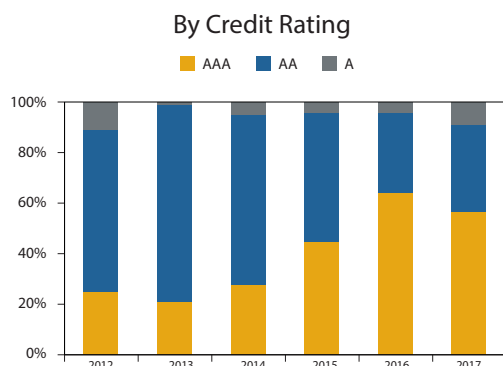
\*Where, UST means US Treasuries. AA& AAA means a combination of AA and AAA rated bonds with the maturities of longer than 1 year. As the investment of A+ rated bonds with more than 1 year remaining maturities issued by government related entities of CGIF member countries was approved at the Board of Directors' meeting in November 2017, there are a few A+ rated bonds in 31-Dec-2017 portfolio. They were included in AA&AAA sector. A-1 means the bonds or deposits whose maturities remain 1 year or less. Portfolio duration means average effective duration of the investment portfolio.

## EVOLUTION OF THE INVESTMENT PORTFOLIO

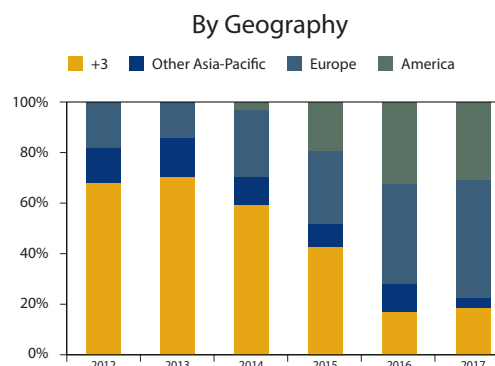
Investment portfolio's asset allocation and duration have been in line with SAA since 2016. Some variations of the investment portfolio against mid-point of SAA are inevitable and can be intentionally taken in consideration of market view and guarantee portfolio situations. CGIF Board approved the Management's proposal to lower the minimum rating criteria for financial instruments

with more than 1 year remaining maturity in CGIF's investment guidelines to A+ for government related issuers of CGIF contributor countries at the Board of Directors meetings in November 2017 provided that such investments are within 10% of CGIF's equity. As a result, weight on A-rated bonds increased at the end of 2017. Figures 12, 13, 14, and 15 show the evolution of the investment portfolio in terms of credit rating, geographical distribution of investments, distribution by sectors, and maturity distribution in past years.

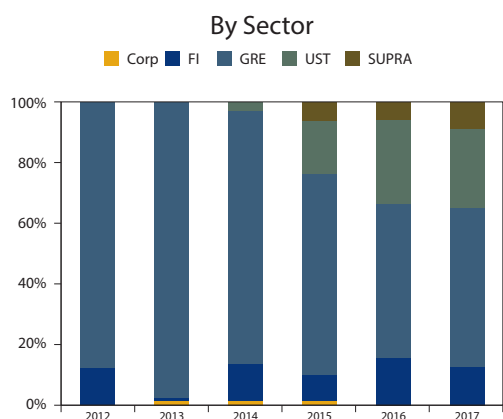
**FIGURE 12: EVOLUTION OF INVESTMENT PORTFOLIO I**



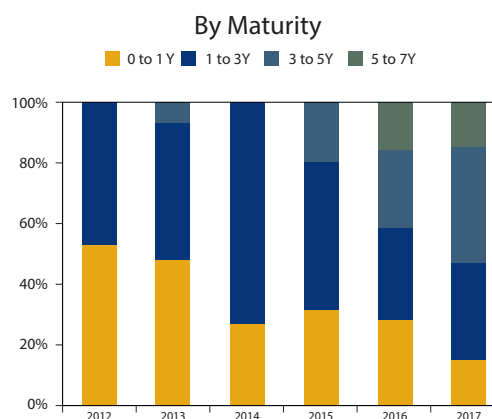
**FIGURE 13: EVOLUTION OF INVESTMENT PORTFOLIO II**



**FIGURE 14: EVOLUTION OF INVESTMENT PORTFOLIO III**



**FIGURE 15: EVOLUTION OF INVESTMENT PORTFOLIO IV**



## INVESTMENT INCOME IN 2017

Realized interest income on investments for 2017 was \$11.8 million, representing a yield of 1.60% without the effect of change in fair value. It is higher than the yield achieved in 2016, 1.46%, and the original

target of 2017, 1.35%. Table 5 provides a quarterly breakdown for the investment income for the year 2017, as well as annual income of 2016 and 2017. ADB suggested a target yield for 2018 at 1.62%, in consideration of conservative investment strategy under the expectation of volatile markets.

**TABLE 5: 2016-2017 INVESTMENT INCOME**

INVESTMENT INCOME (IN \$000)	2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017	2017
DEBT SECURITIES	10,463	2,735	2,806	2,980	3,140	11,661
TIME DEPOSITS	133	10	42	39	82	173
<b>TOTAL</b>	<b>10,596</b>	<b>2,745</b>	<b>2,848</b>	<b>3,019</b>	<b>3,223</b>	<b>11,834</b>

Note: (i) Numbers may not sum up precisely because of roundings

## FX TRANSACTIONS

CGIF receives the guarantee fees either in US dollar or local currency. Local currency fees received are converted soonest to US dollar. Under the new hedging policy adopted by the Board in November 2017, CGIF hedges its exposure to FX risk arising from guarantee fee receivable in local currencies only when such hedging is deemed appropriate, instead of more compulsory hedging under the old policy. Under the agreement between CGIF and ADB, these hedging transactions are executed by CGIF initially, and then processed and settled by ADB. As of end 2017, CGIF is involved in FX derivative transactions in the currencies of PHP, SGD, and VND. For the FX transactions, CGIF analyzed and confirmed local FX regulations that govern financial activities in each jurisdiction of the immediate target markets of CGIF. CGIF is extending the exercise to the economies of BCLM countries.

## COUNTERPARTY RELATIONSHIP

CGIF continued its efforts in establishing relationships with potential counterparties with negotiations for the documents these relationships

require. CGIF has executed the Internal Swaps and Derivatives Association (ISDA) master agreement with major global names, including a European bank and a Japanese bank, on top of a multilateral organization. CGIF continues to expand its counterparty relationship with major local names in the target local markets to improve the capacity and efficiency of hedge transactions further.

## ASEAN CORPORATE BOND MARKET RESEARCH

CGIF Treasury Department has been conducting ASEAN corporate bond market research since the second half of 2016. This research is expected to show the characteristics of each market more clearly so that it can help CGIF properly set its operational strategy for each target market in pursuit of its mandate. This research is carried out through field trips to the markets and interviews with local experts as well as desktop study based on collectible data and information. Corporate bond market research on one or two target economies will be completed in 2018 as a fully dedicated staff having been on board since the beginning of 2018.

# STAFFING AND ORGANIZATION STRUCTURE

CGIF's approved staff number for 2017 is a complement of 43 staff, excluding secondees. The updated staff complement by category as of end of December 2017 is provided in Table 6.

**TABLE 6: STAFF RESOURCES BY CATEGORY**

STAFF CATEGORY	HEAD COUNT
EXECUTIVE STAFF	7
PROFESSIONAL STAFF	6
NATIONAL/ADMINISTRATIVE STAFF	27
<b>TOTAL</b>	<b>40</b>

By the end of 2017, a total of 40 positions had been filled, compared to the 35 filled positions in 2016. During 2017, one executive and one administrative staff member resigned from CGIF in June and January, respectively, while a professional staff and six administrative staff joined the Legal Department, Risk Management Department, Deal Operations Department, Treasury Department and Budget, Planning, Personnel and Management Systems Department, respectively.

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

## INSTITUTIONAL INFRASTRUCTURE

The development of 2017's institutional infrastructure centered on the following key areas:

1. **Medium-term Business Strategy (MBS).** In 2017, CGIF Management finalized its Medium-term Business Strategy (MBS) to clarify CGIF's roles, operational focus, country-specific business strategies, and growth-path in the next 10 years. The MBS was approved by the Board in August 2017.
2. **Capital Increase.** During 2017, CGIF finalized the proposal to further enhance CGIF's guarantee capacity and ensure its sustainable growth through an increase in CGIF's paid-in capital. In December 2017, the Contributors approved the proposal to increase CGIF's authorized capital from \$700 million to \$1.2 billion and invited
3. **Enhancing Environmental and Social Management Systems (ESMS) Capacity.** CGIF hired a dedicated ESMS consultant in 2017 to strengthen CGIF's capacity to evaluate and monitor all transactions. The consultant also assists the GIC to ensure compliance with CGIF's ESMS and to safeguard standards.
4. **Selective Hardware Refresh.** CGIF replaced hardware that reached the end of its useful life and migrated the virtual servers identified to be critical to the newer hardware. In addition, CGIF also replaced its ageing tape backup hardware, which is in line with the business continuity requirements of its operations.

## BUDGET

Budget utilization for 2017 amounted to \$7.16 million. This represents a utilization of 76% excluding contingencies of the budget of \$9.40 million. The Board, in its November 2017 meeting,

approved the 2018 budget of \$9.99 million (before contingency) committing the necessary resources to support the 2018 Work Program.

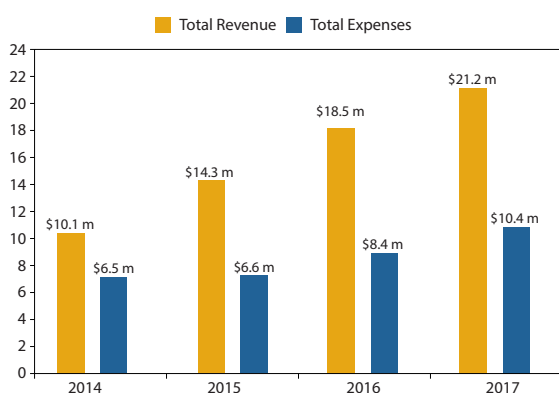
## FINANCIAL HIGHLIGHTS

In 2017, CGIF generated a net income of \$10.8 million, which is \$0.8 million or 7.5% higher than the previous year. This increase was realized through the \$2.8 million increase in total revenues but was partly offset by the \$2.0 million increase in total expenses. Of the total revenue of \$21.2 million, \$11.8 million was contributed from the investment income, which had an 11.7% increase from \$10.6 million in 2016, and \$9.1 million from the guarantee income, which also showed a 13.5% increase or an increase of \$1.1 million from 2016. The total expenses ended at \$10.4 million, 23.7% higher than previous year due to reinsurance expenses and the write-off of withholding taxes on guarantee fees paid by clients, which were deemed un-reimbursable from the tax authority.

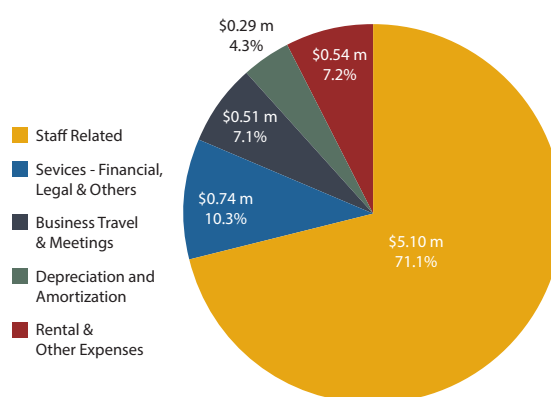
Outstanding guarantee issued as of the end of 2017 decreased to \$1,096.3 million or by 2.2% from \$1,120.5 million in 2016 due to the completion of three accounts during the year. Recognized guarantee fee receivables and guarantee liability recorded \$34.5 million and \$37.3 million, which mark decreases of 10.5% and 10.8% from 2016, respectively.

Total Member's Equity increased to \$739.2 million in 2017, a 2.4% increase from last year's \$727.5 million. Retained Earnings for 2017 was \$10.8 million. CGIF's Reserve, which is the accumulation of allocated retained earnings since its establishment, stood at \$34.8 million

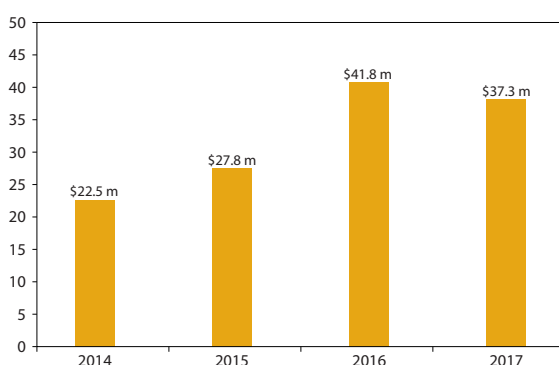
**FIGURE 16: REVENUE VS. EXPENSES**



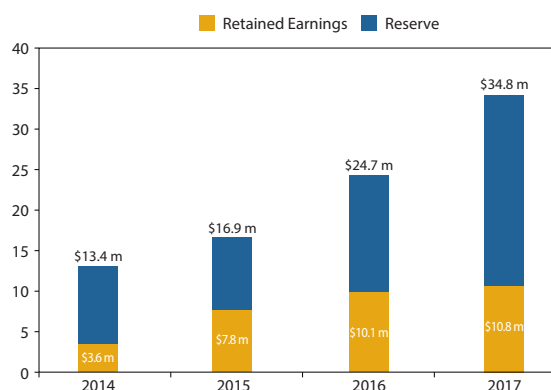
**FIGURE 17: EXPENSES COMPOSITION**



**FIGURE 18: GUARANTEE LIABILITY**



**FIGURE 19: RETAINED EARNINGS AND RESERVE**





**OUR PEOPLE**

## ◎ BOARD OF DIRECTORS



Chairman  
Board of Directors

**Mr. Jian Li**

Assistant President and General Counsel  
The Export-Import Bank of China  
PRC



Chairman  
Nomination and Remuneration Committee

**Mr. Yasuo Takamura**

Director  
Regional Financial Cooperation Division,  
International Bureau Ministry of Finance  
Japan



Chairman  
Internal Control and Risk Management  
Committee

**Mr. Sun-joon Jun**

Director General of Financial Investment  
Department  
The Export-Import Bank of Korea



Chairman  
Audit Committee

**Mdm. Siti Zaayah binti Mohd Desa**

Deputy Secretary-General  
Ministry of Finance Malaysia  
ASEAN Representative



**Ms. Hongxia Li**  
Deputy Director General  
International Economic Relations Department  
Ministry of Finance  
PRC



**Mr. Hitoshi Nagano**  
Director of Division 1 and 2  
New Energy and Power Finance Department II,  
Infrastructure and Environment Finance Group  
Japan Bank for International Cooperation



**Mr. Stefan Hruschka**  
Principal Investment Specialist,  
Private Sector Portfolio Management Division  
Asian Development Bank



**Mr. Kiyoshi Nishimura**  
Chief Executive Officer  
Credit Guarantee and Investment Facility

## ◎ MANAGEMENT TEAM



**Kiyoshi Nishimura**  
Chief Executive Officer

Mr. Kiyoshi Nishimura is the first Chief Executive Officer of the Credit Guarantee and Investment Facility. He has had extensive experience in development banking. Along with his work at the European Bank for Reconstruction and Development as acting director of its Financial Institutions Business Group, Mr. Nishimura has also held senior positions at the Japan Bank for International Cooperation, Export-Import Bank of Japan and the International Monetary Fund.

Mr. Nishimura acquired his Master of Arts in Economics from the University of British Columbia, and his Bachelor of Arts in Economics from the Keio Gijuku University.



**Aarne Dimanlig**  
Chief Risk Officer

Mr. Aarne Dimanlig has had 16 years of risk management and investment banking experience prior to CGIF. Mr. Dimanlig's other professional experiences include appointments at Columbia University Graduate School of Business, the International Monetary Fund, and the University of California in Santa Barbara.

Mr. Dimanlig attended the University of California, Santa Barbara for his PhD in Economics. Mr. Dimanlig's academic portfolio includes a Master of Science degree in Industrial Economics and a Bachelor of Science degree in Mathematics.



**Boo Hock Khoo**

Vice President - Operations

Mr. Boo Hock Khoo oversees CGIF's operations. He was formerly the Deputy Chief Executive of Danajamin Nasional Berhad, a government-owned bond insurer that he helped conceptualize and start up in 2009. Prior to that, he has held various positions in Rating Agency Malaysia, building an almost 20-year career there. Besides his broad experience in rating infrastructure, corporate and financial institutions, and structured finance bonds, he has also had extensive involvement in project finance consultancy in Turkey, Indonesia, and Sri Lanka, as well as in venture capital and private equity transactions.

Mr. Khoo holds a Master of Business Administration degree from Ohio University and a Bachelor of Science degree in Information Systems from Mount Union College.



**Gene Soon Park**

General Counsel and Board Secretary

Mr. Gene Soon Park is the General Counsel and Board Secretary of the Credit Guarantee and Investment Facility. He started his legal career as a Korean attorney at the largest law firm in Korea (Kim and Chang) where he gained hands-on experience in capital market transactions, cross-border financial transactions, and project financing. He has served as General Counsels of Korean subsidiaries of global institutions of Lehman Brothers Securities/Bank and Citibank. He held the position of General Counsel and Board Secretary for Citibank Korea and Citigroup Korea.

Mr. Park attended the Law School of Seoul National University for his Bachelor, Master, and PhD in Banking and Securities Regulation, and the Law School of Stanford University for his Master degree of SPILS (Stanford Program for International Legal Studies).

**Hou Hock Lim**

Corporate Planner and Head of Budget,  
Planning, Personnel and Management Systems

Prior to joining CGIF, Mr. Hou Hock Lim was the General Manager of Group Finance Division of Hong Leong Bank, one of the major banks in Malaysia. He had held various senior positions in OCBC Bank (Malaysia) Bhd, in Deloitte Touche Tohmatsu in Melbourne, Australia doing corporate advisory work for regional mergers and acquisitions, and regional restructuring and global transaction services, in Danajamin Nasional Berhad, a bond guarantor in Malaysia overseeing the functions of Finance, Treasury, Administration and IT, and in Affin Investment Bank Berhad as Chief Financial Officer.

Mr. Lim attended the Monash University (Clayton) Australia for his Bachelor of Commerce Degree, Major in Accounting and Finance, and the Harvard Business School's Senior Management Development Programme. He is also a member of the Australian Society of CPAs and Malaysian Institute of Accountants.

**Jackie Jeong-Ae Bang**

Internal Auditor

Ms. Jackie Jeong-Ae Bang was the Senior Vice President of Citibank Internal Audit Department for nine years covering ASEAN+3 region, along with the India subcontinent and Australia/New Zealand, based in Singapore. She has had over 20 years of extensive banking experiences on audit, credit risk management, client relationship, and securities and funds services in Standard Chartered Bank and Citibank, Seoul and Singapore.

Ms. Bang attended Seoul National University for her BA in English Language and Literature, the Graduate School of Yonsei University for MBA and Thunderbird School of Global Management for Master of International Management. She obtained certificates for Project Management Professional (PMP) and Certified Fraud Examiner (CFE).



**Dong Woo Rhee**  
Chief Financial Officer

Mr. Dong Woo Rhee joined CGIF first as a Treasury Specialist in 2013, and was promoted to the Chief Financial Officer from Senior Treasury Specialist in June 2017. He has had extensive experience in the capital markets with primary focus on trading fixed income securities (and their derivatives), asset & liability management and risk management in Samsung Asset Management, Samsung Life, and Credit Suisse. With his good performance and reputation in the regional fixed income market, Mr. Rhee was awarded “The Most Astute G3 Bond Investor” in the 2006 Asset Benchmark Survey.

Mr. Rhee attended Sogang University for his Bachelor’s Degree in Business Administration, and Korea Advanced Institute of Science and Technology for his Master Degree and PhD in Finance. He has published several papers associated with financial risk management and asset management, including “Strategic Asset Allocation of Credit Guarantors”, which was published in the Journal of Applied Business Research. He also holds both CFA (Chartered Financial Analyst) and FRM (Financial Risk Manager) credentials.





## ● OUR PEOPLE



Our people come from diverse cultural, educational and professional backgrounds, representative of ASEAN+3.

At CGIF, professionals with decades of experience from international financial institutions, government agencies and private sectors mobilize their specialties in economics, finance, investments and risk management, audit, legal and corporate management, towards strengthening local currency and regional bond markets.

We are organized into major functional groups; operations, risk management, compliance and support. We bring together the culture of discipline and passion to reach new heights together. CGIF works as a team.

Our Core Competencies, Achieving Results and Problem Solving, Personal Effectiveness, and Collaboration and Teamwork, serves as our anchor. We are committed and invested in the development of our human capital.



# GOVERNANCE



## GOVERNANCE

### 30 June 2017

Mr. Fumihiko Yamada, Director of Promotion of Regional Financial Cooperation, International Bureau of the Ministry of Finance of Japan (JMOF) resigned as Director of CGIF. In his place, JMOF nominated Mr. Akihiko Yoshida, Director for Regional Financial Cooperation Division, International Bureau to serve as new Director of CGIF.

### 10 July 2017

Mr. Akihiko Yoshida, Director for Regional Financial Cooperation Division, International Bureau of JMOF resigned as Director and Mr. Yasuo Takamura, Director for Regional Financial Cooperation Division, International Bureau of JMOF replaced him as the new Director of CGIF.

### 19 July 2017

Mr. Toshiaki Kitajima, Director of Division 1, New Energy and Power Finance Department II, Infrastructure and Environment Finance Group of Japan Bank for International Cooperation (JBIC) resigned as Director of CGIF. In his place, JBIC nominated Mr. Hitoshi Nagano, Director of Division 1 and 2, New Energy and Power Finance Department II, Infrastructure and Environment Finance Group, JBIC, to serve as new Director of CGIF.

## MEETING OF CONTRIBUTORS (MOC)

The Annual Meeting of Contributors (MOC) for 2017 was held on 23 May 2017 in Surabaya, Indonesia.

During the Annual MOC for 2017, the Contributors considered and approved the following recommendations by the Board:

1. The minutes of the last MOC held on 31 May 2016 in Phnom Penh, Cambodia
2. The Annual Report for 2016 including the Audited Financial Statements
3. The allocation of the entire net income for 2016 of \$10,082,594.95 in Retained Earnings to Reserve
4. The extension of Appointment of Chief Executive Officer (CEO) to the later of (i) 30 June 2018 or (ii) 6 months after the decision of the MOC as to whether to extend or not to extend further the term of the CEO
5. Election of the Chairpersons of the Audit Committee, the Internal Risk and Control Committee and the Nomination and Remuneration Committee for a three year period beginning from 27 May 2017.
6. Waiver of the AoA to hold a physically convening MOC to formally decide on the Capital Increase Proposal once it has come to a consensus to increase CGIF's authorized capital.
7. Amendments to the Articles of Agreement (AoA) as shown in the box below:

Original Clause	Revised Clause
<b>Cover Page; Page 1; Schedule 3</b> – Definitions Credit Guarantee and Investment Facility	Credit Guarantee And Investment Facility, <b>a trust fund of the Asian Development Bank</b>
<b>Art. 4.1</b> The authorized capital of CGIF shall be \$700,000,000, divided into 7,000 Shares with a nominal value of \$100,000 each. All such Shares shall be subscribed and fully paid in by the Contributors.	<b>At the time of establishment,</b> the authorized capital of CGIF shall be \$700,000,000, divided into 7,000 Shares with a nominal value of \$100,000 each; <b>and</b> all such Shares shall be subscribed and fully paid in by the Contributors.
N/A	<b>New Art. 4.6</b> No Contributor shall be obliged to subscribe to any Share arising from the increase of the authorized capital of CGIF under Article 4.2.
<b>Schedule 3 – Definitions – “Contributor”</b> means any of the ASEAN+3 countries, any entity wholly-owned by such countries, or ADB, as listed in Schedule 1 to these Articles of Agreement;	means any of the ASEAN+3 countries, any entity <b>directly or indirectly</b> wholly-owned by such countries, or ADB, as listed in Schedule 1 to these Articles of Agreement;

### SPECIAL MEETING OF CONTRIBUTORS

A Special MOC was called electronically on 3 November 2017 to approve CGIF's Draft MOC Resolution (Resolution) for the CIP, which aimed to increase CGIF's authorized capital to \$1.2 billion and invite the Contributors to subscribe new shares to increase paid-in capital by 2023. On 6 December 2017, the Resolution was approved by an affirmative vote of at least two-thirds of the number of existing Contributors who held collectively at least two-thirds of the total outstanding Shares (Approval by

Super Majority) of CGIF in compliance with Article 4.2 of the AoA of CGIF. As a result, the authorized capital of CGIF was increased to \$1,200,000,000.

On 22 December 2017, CGIF received \$3 million from the government of the Philippines as the first of three installments of payment for its subscription quota. As a result, CGIF's paid-in capital at the end of 2017 was \$703 million.

## BOARD OF DIRECTORS (BOARD)

In 2017, the Board held a total of three physical meetings respectively in Tokyo, Japan, Kuala Lumpur, Malaysia, and Cebu City, Philippines, as well as a Board meeting held via teleconference. In all Board meetings, the Board provided oversight and supervision of CGIF's management and operations. This ensured the Board's compliance with its key responsibilities in the governance of CGIF.

The key items discussed and approved by the Board in 2017 are summarized below:

### 9 March 2017 (Teleconference)

An Ad-hoc Board Meeting was held via teleconference to discuss the pending Medium-term Business Strategy (MBS) and Capital Increase Proposal (CIP).

### 18-19 April 2017 (Tokyo, Japan)

1. Approval of the Annual Report for 2016, which includes the Audited Financial Statements for the year ended 31 December 2016, for sending to the MOC for its review and final approval
2. Approval and recommendation to the Meeting of Contributors (MOC) of the proposal for the allocation of the entire earning in 2016 of \$10,082,594.95 in Retained Earnings to Reserve, subject to the approval of the Audited Financial Statements for 2016 by the MOC
3. Approval of the Performance Evaluation of CEO
4. Approval of the extension of appointment Mr. Aarne Dimanlig as CGIF's CRO
5. Approval of the selection of Mr. Dong Woo Rhee as CGIF's CFO
6. Approval of the Alternative Guarantee Approval Process
7. Approval of the Amendments to the Treasury/Investment Guidelines

8. Approval of the Reconciliation of ADB Treasury Data/Amendment to OP

### 1-2 August 2017 (Kuala Lumpur, Malaysia)

1. Approval of MBS
2. Approval of recommending the proposal for an increase of CGIF's authorized capital to \$1.2 billion to the Special MOC to be held in 2017
3. Approval of the draft MOC resolution related to the CIP

### 21-22 November 2017 (Cebu City, Philippines)

1. Approval of Expected Credit Loss Computation Guidelines
2. Approval of the 2018 Business Plan, the 2018 Work Programs, the 2018 Key Performance Benchmarks, and the 2018 Budget, consisting of an Operational and Administrative Expenditure Budget of \$10.48 million and a Capital Expenditure Budget amounting to \$893,526.00
3. Approval of the Proposal on Guarantee Underwriting Proposal (GUP) on AEON Credit Service (Philippines) Inc.
4. Approval of the Proposal on Lowering Minimum Credit Rating Criteria in the Investment Guidelines
5. Approval of the Proposal to Change Hedging Policy

In 2017, through electronic means, the Board also deliberated and approved key guarantee-related items as follows:

1. Approval of the GUP for Pestech (Cambodia) Limited on 13 July 2017
2. Approval of the GUP for Nam Theun 2 Power Company Ltd. (NTPC) on 9 November 2017
3. Approval of the GUP for Siamgas and Petrochemicals Public Company Limited on 15 December 2017

## AUDIT COMMITTEE (AC)

**T**he Audit Committee is tasked by the Board of Directors (BOD) with the oversight, due diligence, and control over the financial aspects of CGIF's operations and performance.

### Purpose

The Audit Committee assists the BOD in fulfilling its corporate governance and oversight responsibilities, particularly on financial reporting and the internal and external audit functions. CGIF's Operational Policies empowers the Audit Committee to monitor, review, and make recommendations to ensure the integrity and effectiveness of (i) financial reporting, (ii) internal and external audit functions, (iii) internal controls in the use of CGIF resources, (iv) regulatory and policy compliance, (v) dialogue among BOD, Management, and audit, and (vi) the culture of oversight and ethical standards.

### Structure and Responsibilities

Three directors representing the Association of Southeast Asian Nations (ASEAN), the People's Republic of China, and the Republic of Korea comprises the Audit Committee, with the ASEAN director as Chairperson. The MOC approves the appointment of the Chairperson.

The Audit Committee performs a critical role in assuring the integrity of CGIF's internal control environment and audit mechanism to ensure that gaps and deficiencies are corrected. Given the importance of Audit Committee in the BOD's function of oversight and of enhancing accountability to Contributors, the Audit Committee's work is communicated to the Contributors by reporting the committee's roles and terms of reference, the number of meetings

and attendance, and the findings and discharge of its responsibilities.

The effectiveness of the audit mechanism and any cause for concern or scope for improvement are reviewed and reported to the BOD by the Audit Committee. Where there is disagreement between the Audit Committee and the BOD, which cannot be resolved within a reasonable time, the Audit Committee has the right to report the issue to the Meeting of Contributors. The Audit Committee will have explicit authority to investigate any matter within its terms of reference and have full access to available information.

The Audit Committee reviews its terms of reference and its own effectiveness annually and recommends any necessary changes to the BOD when needed.

### Calendar year 2017 Audit Committee activities:

There were four Audit Committee meetings in 2017 consisting of three physical meetings (on 18 April, on 1 August, and on 21 November) and one electronic meeting (on 14 July). The Audit Committee discharged its independent oversight function during its periodic meetings through deliberations, which were reported to the BOD by the Chairman, and were considered and unanimously adopted by the BOD.

### FINANCIAL REPORTING

The Audit Committee reviewed and approved significant financial reporting matters that were made in the preparation of financial statements and disclosures by CGIF Management. Taking into account the view of the external auditor, the Audit Committee reviewed the accounting and

reporting policies adopted by CGIF, the significant estimates and judgments made, and the clarity and completeness of disclosures, in accordance with international accounting standards.

In its first meeting held on 18 April 2017, the Audit Committee reviewed and approved CGIF's 2016 audited financial statements. The external auditor, Deloitte & Touche, physically participated in the meeting without CGIF Management in attendance and discussed the issues arising from the audit as required by CGIF's Operational Policies. The Audit Committee raised a question on the appropriateness of CGIF's accounting treatment for credit loss reserves, which the external auditor explained and confirmed that CGIF has been complying with the international accounting standards.

During the year, quarterly unaudited financial statements were reported to the Audit Committee for their review. The preparation for the adoption of International Financial Reporting Standards 9 (IFRS 9) in 2018, which introduces new requirements on the classification, measurement, and impairment for Financial Instruments, was reported by the Chief Financial Officer (CFO) to the Audit Committee in the April 2017 meeting. Specifically, the CFO discussed the development of CGIF's own Expected Credit Loss (ECL) model to comply with the new impairment requirements, which will impact CGIF financial statements. In the November 2017 BOD meeting, the CFO reported the implementation of IFRS 9, effective 2018 financial statements, and the Chief Risk Officer proposed the guidelines for the impairment computation using CGIF's own ECL model, which was approved by the BOD.

## **AUDIT MECHANISM**

### **External Audit**

The Audit Committee is responsible for overseeing the work of external auditors and making recommendations to the BOD and the Contributors on its appointment, re-appointment,

and removal. Deloitte & Touche is the external auditor selected by the Contributors for a term of five fiscal years from 2014 to 2018, as recommended by the Audit Committee and the BOD.

The engagement terms, which includes the scope of work, and the appropriateness of the audit fees are reviewed and approved by the Audit Committee and the BOD. No separate approval was obtained from Audit Committee and the BOD on the 2017 engagement terms as there were no changes since 2014 originally approved engagement terms. The audit fees in 2017 was increased by 18%, with the consideration of additional guarantee deals and resultant reinsurance treatment, IFRS 9 implementation, and new disclosure requirements that were approved by the Audit Committee in July 2017.

### **Internal Audit**

The Internal Auditor, as part of its responsibility and accountability to the Audit Committee, evaluates and contributes to the improvement of governance, risk management, and control processes by providing risk-based independent and objective assurance.

Internal audit activities are carried out through a systematic and disciplined audit methodology approved by the Audit Committee. The Audit Committee reviews and approves the internal audit function's remit, and ensures that it has the necessary resources and the access to information it needs to fulfill its mandate. It also certifies that the internal audit function is equipped to perform in accordance with the appropriate professional standards.

As part of the continuous efforts by Internal Auditor to enhance the audit methodology, several improvements to the Audit Manual were reported to the Audit Committee in April 2017 by incorporating feedbacks from business counterparts and lessons learned from past audit activities. The enhancements to the Audit Manual

includes (i) introduction of the risk assessment profile for each audit entity, a live document with details on last audit information, business unit description and risk assessment on seven risk family (strategic, compliance, risk, financial reporting, staffing/organization, operational and system/technology) with rationale, (ii) reporting requirement to the Audit Committee on any deviation or exception from Audit Manual, (iii) formalizing the inclusion in the audit report of other issues that may have a negative impact which would require monitoring for proper mitigation, and the issues that the business decides not to take corrective actions on, and (iv) adding further clarification on corrective action plans validation methodology.

Results of Internal Auditor's works are reviewed by the Audit Committee through the issued audit reports and the reported quarterly audit updates for 2017. The audit report includes findings and recommendations for high and medium-risk observations, with the corresponding action plans. The quarterly audit update includes (i) quarterly audit refresh for any change in the approved audit plan, (ii) internal audit activities report, (iii) corrective action plan validation and monitoring status, and (iv) coordination of external audit, as applicable.

The Audit Committee reviews and monitors the management's responsiveness to Internal Auditor's findings and recommendations through the implementation of corrective action plans. The Internal Auditor monitors and validates the corrective action plans, which are reported to the Audit Committee and the BOD through the quarterly audit updates and the quarterly management report, respectively.

The AC Chairman and the Internal Auditor had a separate meeting on 9 November 2017 without CGIF Management in attendance to discuss issues arising from audit activities, as required by CGIF's Operational Policies. This is to ensure that the Internal Auditor has direct access to the

Audit Committee, which will assess the role and effectiveness of the internal audit function, and affirm its independence. During the meeting, the Internal Auditor discussed the challenges being encountered from audit activities, sought continued support and guidance for a more effective internal audit function, and re-confirmed internal audit charter, which defines the purpose, authority, and responsibility of the internal audit function in CGIF. In addition, at the request of AC Chairman, another meeting between the Alternate Director for the AC Chairman and the Internal Auditor was conducted to discuss the issues from the audit activities. The meeting results were reported to the Audit Committee meeting in November 2017.

On its third physical meeting in November 2017, the Audit Committee reviewed and approved the internal audit plan for 2018, which is the second year out of its six-year audit plan, and will cover the audit of Budget (low risk).

## INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE (ICRMC)

### CONTROL AND RISK MANAGEMENT GOVERNANCE

The Board is the highest internal control and risk management governing body in CGIF. Based on recommendations of its Internal Control and Risk Management Committee (ICRMC), the Board establishes appropriate policies on internal control and assures itself that the control and risk management system is functioning effectively (OP 128). The ICRMC ensures that there are sound and effective systems of internal control and risk management operating to safeguard CGIF's Contributors' investments and CGIF's assets, and that the Board approves only sound guarantee and investment proposals (OP 117). The Chief Risk Officer, who functionally reports to the ICRMC, implements the foregoing responsibilities at managerial and operational levels.

CGIF manages and controls all risks (pursuant to OP 133 and 180). Internal control and risk management in CGIF involve continual activities of identification, measurement, control, and reporting of 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 towards, and prioritize, the management of these risks.

The ICRMC is composed of Directors representing Japan, the Republic of Korea, and the ASEAN. The Director representing the Republic of Korea serves as the ICRMC Chair. The MOC approves the appointment of the Chairperson. The ICRMC met three times in 2017 (17 April, 1 August and 21 November). Policies for internal control and

risk management were deliberated upon and approved by the ICRMC at its physical meetings.

### CONTROL AND RISK MANAGEMENT POLICIES

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, responds to business, financial, and operational risks, safeguards assets from inappropriate or improper use, loss, and fraud, and identifies and manages liabilities (pursuant to OP 133). CGIF's internal control and risk management policies may be found in its Operational Policies (OP) and the various manuals and guidelines that are considered part of CGIF's Enterprise Risk Management Framework (ERMF).

### CREDIT RISK MANAGEMENT

The Credit Guarantee Process document of the ERMF guides the management of credit risk in CGIF. As it is for general risk management, a feature of the Credit Guarantee Process is the continual identification, measurement, control, and reporting of credit risk. From the guarantee deal origination stage to the Board approval stage, and up to the guarantee portfolio management stage, CGIF's DOD is directed to identify credit risk factors of the issuers. Portfolio concentration limits and issuer credit ratings, among others, are reviewed by the DOD at the deal origination stage.

The DOD is required to secure approval of CGIF's GIC before they advise an issuer to formally apply

for a guarantee. It will submit a GCP to secure the aforesaid approval from the GIC. At this stage, the GIC and Risk Management Department (RMD) reviews the issuer's risk rating, compliance to various credit risk control limits, and initially available information, particularly financials, business, and markets, of an issuer. RMD assesses the credit rating of an issuer using a credit rating tool developed by one of the major international credit rating agencies.

An issuer that applies for credit guarantee is subjected to a more thorough and in-depth credit risk assessment and a due diligence review before a GUP is submitted to the GIC for the latter's endorsement to the Board for approval. Part of the due diligence review is an on-site visit to the issuer. The thorough review covers, among others, the issuer'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 RMD reviews all GCPs and Guarantee Underwriting Proposals (GUPs) submitted for deliberation by, and approval of, the GIC.

In 2017, the GIC reviewed 13 GCPs, which were all approved to undergo a thorough due diligence review. The GIC then approved seven GUPs. Of these, six were endorsed to the Board but only four have been sent as two were pending as at year end. One GUP obtained final approval from the GIC under the AGAP. CGIF issued three bond guarantees in 2017. Issued guarantees in CGIF's portfolio are periodically reviewed for adverse movements in their credit quality. CGIF's risk management system includes guidelines for the management of its portfolio of guarantees.

CGIF is in treaty with a consortium of reinsurers led by Munich Re that is effective up to 31

December 2018 following its renewal in December 2017. Under the reinsurance treaty, 25% of CGIF's outstanding guarantees will be ceded to the consortium. For guarantees with long tenors, special approvals may be required from the consortium for reinsurance cover under the treaty.

## **INVESTMENT BOOK MARKET RISK AND CREDIT RISK MANAGEMENT**

CGIF's capital resources are managed by the ADB, as Trustee, pursuant to CGIF's OP, Investment Guidelines and Treasury Guidelines; and to ADB risk management and investment guidelines. CGIF's OP 215 specifies that the primary objective of CGIF capital resources management is the protection of 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 2017, CGIF capital resources were invested in USD-denominated fixed income securities and in bank placements. Investments in fixed income securities are carried as available-for-sale (AFS) 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 ERMF limits the 95.0% one-month VaR of its fair value through profit or loss (FVTPL) and AFS positions to no more than 5.0% of CGIF equity. In addition to the foregoing control, unrealized loss of the investment portfolio is limited by policy to no more than 1.0% of equity, and the investment portfolio's modified duration is limited by policy to no more than 5 years.

Pursuant to OP 220, CGIF's long-term investments are restricted to those with international ratings of AA- or better, with the exception of investments

in contributor countries' government-related securities that may be rated as low as A+. For short-term investments, international ratings should be no lower than A-1.

## **LIQUIDITY RISK MANAGEMENT**

CGIF is liquid insofar as it has the ability to fund assets and meet obligations as they become due. As such, CGIF's liquidity redounds to the availability of resources to fund assets, and to its ability to meet obligations when they become due. 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 that fall due.

CGIF measures its liquidity risk by estimating liquidity gaps at each of the next 3 months. This exercise is conducted quarterly. In 2017, all projected monthly cumulative liquidity gaps have been observed to be positive.

Liquidity stress tests, in consideration of CGIF's guarantee portfolio as of the end of each quarter, in 2017 indicate that sufficient liquidity can be raised by CGIF to service contingent guarantee claims.

## **FOREIGN EXCHANGE RISK MANAGEMENT**

Foreign exchange risk is CGIF's risk of loss due to (i) a decrease in USD value of assets, or (ii) an increase in USD value of liabilities, denominated in local currencies. Foreign exchange risk also pertains to the potential loss from selling assets, or paying off liabilities, when the USD-to-local currency exchange rates have moved adversely from their levels at booking date.

In 2017, CGIF carried foreign exchange forwards—to sell local currencies for USD—with the International Finance Corporation, Standard Chartered Bank, and Bank of Tokyo Mitsubishi UFJ, to cover FX risk exposure relating to guarantee fee receivables

from four guarantee issuances. CGIF's outstanding foreign exchange forwards are maturing in 2018. In 2017, CGIF's Board approved a proposal to remove the default requirement to hedge foreign exchange risk relating to guarantee fees in local currencies. Corollary to this, the Board has removed the limit on foreign currency exposures.

## **OPERATING 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. Guidelines for the management of CGIF's operational risks are articulated in CGIF's Operational Risk Management Manual, which includes guidelines for annual Risk and Control Self-Assessment (RCSA). Results of the RCSA for 2017 are to be reported to ICRMC in its first 2018 meeting.

## **COMPLIANCE RISK**

Compliance risk is the risk of non-compliance to CGIF's various policies and operating guidelines. Such risk is mitigated by internal compliance and disclosure validation audits.

## **CAPITAL ADEQUACY**

CGIF's capacity to undertake its guarantee business is contingent on the adequacy of its capital. Insufficiency of capital puts CGIF at risk of a credit rating downgrade, and the consequent loss of business, or of profitability. CGIF tracks its leverage ratio and capital adequacy ratio (CAR) to monitor capital sufficiency. By policy, CGIF's maximum leverage ratio should not exceed 2.5:1. CGIF's CAR follows the Basel II definition. By policy, the CAR should not fall below 8.8%.

- CGIF provides credit guarantees on local currency denominated bonds issued by creditworthy companies in ASEAN+3 countries. It has been established to help promote economic development and build resilience and stability in the region's financial markets.



## THE NOMINATION AND REMUNERATION COMMITTEE (NRC)

**T**he Nomination and Remuneration Committee (NRC) is composed of three directors representing Japan, People's Republic of China, and the Asian Development Bank (ADB). The director representing Japan acts as the Chairperson. The MOC approves the appointment of the Chairperson.

The NRC is responsible for overseeing the remunerations, pensions, and the other compensations that are given to the senior executives of CGIF. Specific responsibilities include:

1. Having in place a succession plan for the Chairperson of the Board and the CEO
2. Making necessary recommendations to the Board for the continuation in service of the executive staff of CGIF; the selection and appointment of these executives

3. Providing necessary information to the Board relating to matters concerning selection of executives, to be included in CGIF's annual report
4. Ensuring that the Chairperson of the NRC attends the MOC relating to the nomination and selection of the CEO

NRC held two meetings—one on 17 April 2017 in Tokyo, Japan and another on 21 November 2017 in Cebu City, Philippines. The committee noted two reporting items namely the selection of a new Chief Financial Officer and the salary adjustment for 2018.



# APPENDIX

# **APPENDIX: REPORT OF THE EXTERNAL AUDITOR AND FINANCIAL STATEMENTS**



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

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

**FOR THE YEARS ENDED  
31 DECEMBER 2017 AND 2016**

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

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

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## INDEPENDENT AUDITOR'S REPORT

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

#### Opinion

We have audited the financial statements of Credit Guarantee and Investment Facility (the "Company"), which comprise the statement of financial position as at December 31, 2017 and the statement of net income, the statement of comprehensive income, statement of changes in members' equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

#### Basis for Opinion

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

#### Responsibilities of Management for the Financial Statements

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

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

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

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

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

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

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

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



Public Accountants and  
Chartered Accountants  
Singapore

April 19, 2018

**CREDIT GUARANTEE AND INVESTMENT FACILITY**  
**(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**  
**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2017 and 2016**  
*Expressed in Thousands of United States Dollars*

	<b>NOTES</b>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>			
CASH		6,599	2,210
INVESTMENTS	5	733,392	725,720
DERIVATIVE ASSETS	6	-	465
ACCRUED INTEREST INCOME	5	3,466	3,324
GUARANTEE FEE RECEIVABLE	7	34,526	38,565
FURNITURE, FIXTURES AND EQUIPMENT, NET	8	203	204
INTANGIBLE ASSETS, NET	9	303	502
OTHER ASSETS	10	620	1,012
<b>TOTAL ASSETS</b>		<b>779,109</b>	<b>772,002</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>			
<b>LIABILITIES</b>			
GUARANTEE LIABILITY	7	37,277	41,804
UNEARNED INTEREST INCOME - GUARANTEES		261	167
DERIVATIVE LIABILITIES	6	991	565
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	11	657	1,245
OTHER LIABILITIES	12	700	700
<b>TOTAL LIABILITIES</b>		<b>39,885</b>	<b>44,481</b>
<b>MEMBERS' EQUITY</b>			
CAPITAL STOCK			
PAID-IN CAPITAL	13	703,000	700,000
RETAINED EARNINGS		10,844	10,082
RESERVE	14	34,771	24,689
ACCUMULATED OTHER COMPREHENSIVE INCOME			
UNREALIZED LOSS IN FAIR VALUES OF AVAILABLE FOR SALE INVESTMENTS	5	(9,391)	(7,250)
<b>TOTAL MEMBERS' EQUITY</b>		<b>739,224</b>	<b>727,521</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>		<b>779,109</b>	<b>772,002</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY**  
**(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**  
**STATEMENT OF NET INCOME**  
For the year ended 31 December 2017 and 2016  
*Expressed in Thousands of United States Dollars*

	NOTES	2017	2016
<b>REVENUE</b>			
GUARANTEE FEES		8,397	7,698
INTEREST INCOME	15	12,545	10,432
REALIZED GAIN FROM SECURITIES		26	509
FAIR VALUE CHANGES – DERIVATIVES		(602)	(220)
MISCELLANEOUS INCOME	16	682	787
<b>GROSS REVENUE</b>		<b>21,048</b>	<b>19,206</b>
<b>EXPENSES</b>			
ADMINISTRATIVE AND OPERATIONAL EXPENSES	17	7,177	7,022
REINSURANCE EXPENSES	18	2,198	540
WRITE-OFF EXPENSE	19	256	84
FINANCIAL EXPENSES		59	54
MISCELLANEOUS EXPENSES	12	700	700
<b>TOTAL EXPENSES</b>		<b>10,390</b>	<b>8,400</b>
<b>NET OPERATING INCOME</b>		<b>10,658</b>	<b>10,806</b>
GAIN (LOSS) FROM FOREIGN EXCHANGE		186	(724)
<b>NET INCOME</b>		<b>10,844</b>	<b>10,082</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY  
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)  
STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31 December 2017 and 2016  
*Expressed in Thousands of United States Dollars***

	<b>NOTES</b>	<b>2017</b>	<b>2016</b>
NET INCOME		10,844	10,082
OTHER COMPREHENSIVE INCOME			
ITEM THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME:			
NET UNREALIZED LOSS IN FAIR VALUES OF AVAILABLE FOR SALE	5	(2,141)	(5,118)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>8,703</b>	<b>4,964</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY**  
**(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**  
**STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
**For the year ended 31 December 2017 and 2016**  
*Expressed in Thousands of United States Dollars*

	Paid-in Capital		Retained Earnings	Reserve	Unrealized Loss on FV of AFS	Total Members' Equity
	Subscribed Capital	Unpaid Subscription				
BALANCE, 1 JANUARY 2016	700,000		7,781	16,908	(2,132)	722,557
NET INCOME FOR THE YEAR	-		10,082	-	-	10,082
ALLOCATION OF PRIOR YEAR INCOME TO RESERVE	-		(7,781)	7,781	-	-
OTHER COMPREHENSIVE LOSS						
NET UNREALIZED INVESTMENT HOLDING LOSS DURING THE YEAR	-		-	-	(5,118)	(5,118)
<b>BALANCE, 31 DECEMBER 2016</b>	<b>700,000</b>		<b>10,082</b>	<b>24,689</b>	<b>(7,250)</b>	<b>727,521</b>
BALANCE, 1 JANUARY 2017	700,000		10,082	24,689	(7,250)	727,521
ADDITIONAL SUBSCRIPTION	9,000	(6,000)		-	-	3,000
NET INCOME FOR THE YEAR	-		10,844	-	-	10,844
ALLOCATION OF PRIOR YEAR INCOME TO RESERVE	-		(10,082)	10,082	-	-
OTHER COMPREHENSIVE LOSS						
NET UNREALIZED INVESTMENT HOLDING LOSS DURING THE YEAR	-	-	-	-	(2,141)	(2,141)
<b>BALANCE, 31 DECEMBER 2017</b>	<b>709,000</b>	<b>(6,000)</b>	<b>10,844</b>	<b>34,771</b>	<b>(9,391)</b>	<b>739,224</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY**  
**(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2017 and 2016  
*Expressed in Thousands of United States Dollars*

	NOTES	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
GUARANTEE RELATED INCOME RECEIVED		8,792	8,205
OTHER INCOME RECEIVED		374	379
ADMINISTRATIVE AND OPERATIONAL EXPENSES PAID		(7,873)	(7,166)
REINSURANCE EXPENSES PAID		(1,923)	-
FINANCIAL EXPENSES PAID		(59)	(54)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>		<b>(689)</b>	<b>1,364</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
PURCHASES OF INVESTMENTS		(2,331,949)	(3,161,209)
MATURITIES OF INVESTMENTS		2,321,478	3,147,795
INTEREST RECEIVED ON INVESTMENTS		12,325	11,040
REALIZED GAIN FROM SECURITIES		26	509
REALIZED GAIN/(LOSS) FROM DERIVATIVES		289	(51)
PURCHASE OF FURNITURE AND EQUIPMENT		(96)	(402)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		<b>2,073</b>	<b>(2,318)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
CONTRIBUTIONS RECEIVED	13	3,000	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>3,000</b>	<b>-</b>
<b>EFFECT OF EXCHANGE RATE CHANGES IN CASH</b>		<b>5</b>	<b>(19)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>4,389</b>	<b>(973)</b>
CASH AT THE BEGINNING OF THE YEAR		2,210	3,183
<b>CASH AT THE END OF THE YEAR</b>		<b>6,599</b>	<b>2,210</b>
<b>RECONCILIATION OF NET INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>			
NET INCOME		10,844	10,082
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:			
DEPRECIATION AND AMORTIZATION		289	258
INTEREST INCOME ON INVESTMENTS		(11,808)	(10,087)
REALIZED GAIN FROM SECURITIES		(26)	(509)
LOSS ON DERIVATIVES		602	220
LOSS ON DISPOSAL OF ASSETS		-	2
WRITTEN OFF EXPENSE	19	256	84
FX REVALUATION (GAIN) LOSS		(5)	19
CHANGE IN GUARANTEE FEE RECEIVABLE		4,039	(13,032)
CHANGE IN GUARANTEE LIABILITY		(4,527)	13,963
CHANGE IN UNEARNED INTEREST INCOME		94	79
CHANGE IN ACCOUNTS PAYABLE AND ACCRUED EXPENSES		(582)	860
CHANGE IN MISCELLANEOUS ASSETS		135	(575)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>		<b>(689)</b>	<b>1,364</b>

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

**NOTES TO FINANCIAL STATEMENTS  
For the year ended 31 December 2017**

**NOTE 1— GENERAL INFORMATION**

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

The general principles of organization, management and operations of CGIF are set out in the Articles of Agreement (AoA) 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 AoA. Based on the Article 13.2 of the AoA of CGIF, the privileges, immunities and exemption accorded to ADB pursuant to the Agreement Establishing the ADB shall apply to (1) the Trustee, (2) the property, asset, archives, income, operations, and transactions of CGIF.

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

The Contributors in CGIF are the governments of Association of Southeast Asian Nations, People's Republic of China, Japan, Republic of Korea (ASEAN+3) and ADB. Ownership rights are in proportion to capital contributions. The authorized capital of CGIF is US\$1,200,000,000, divided into 12,000 shares with a nominal value of US\$100,000 each. As of 31 December 2017, \$709,000,000 shares are subscribed and \$703,000,000 are paid in by the Contributors. Details are discussed in Note 13.

The financial statements were approved by the Board of Directors on 19 April 2018 for presentation to the Meeting of Contributors (MOC) on 31 May 2018. The financial statements are subject to approval at the MOC.

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

***Amendments to IFRSs that are mandatorily effective for the current year***

In the current period, CGIF has applied the following amendment to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017.

**Amendments to IAS 7 Statement of Cash Flows (Disclosure Initiative)**

In January 2016, such amendments to the above standard issued by the IASB requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. CGIF's liabilities do not arise from financing activities and the application of these amendments do not have an impact on the financial statements of CGIF.

### ***New and revised IFRSs in issue but not yet effective***

CGIF has not applied the following new and revised IFRSs that have been issued but are not yet effective:

#### **IFRS 15 Revenue from Contracts with Customers**

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

#### **IFRS 9 Financial Instruments**

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

Key requirements of IFRS 9:

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

reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized; and

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

This is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. Based on the analysis of CGIF's financial assets and liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the Management has performed an assessment of the impact of IFRS 9 to the financial statements as follows:

#### Classification and measurement

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

#### Impairment

- IFRS 9 requires the expected credit loss (ECL) model to apply to, among others, financial assets measured at either amortized cost or FVTOCI and financial guarantee contracts (Note 7) to measure the impairment provisions. AFS investments, guarantee fee receivables and financial guarantee contracts are the financial instruments which are subject to the impairment provisions in CGIF.
- If there has been a significant increase in credit risk of the item from initial recognition, lifetime ECL is applied to the impairment provision of the item. Otherwise, 12-month ECL is applied. As of 31 December 2017, there are no financial instruments in CGIF whose credit risks have significantly increased since initial recognition.
- The application of the ECL model of IFRS 9 will result in earlier recognition of credit losses for the respective items. However, the Management does not expect any significant impact for these loss allowances.

#### IFRS 16 Leases

In January 2016, IASB issued the new standard for leases that will supersede the current lease guidance including IAS 17 Leases and the related interpretations. The standard introduces a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

This new standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinction on operating leases (off-balance sheet) and finance leases (on-balance sheet) is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at

cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, among others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by this new standard. IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 with early application permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. CGIF does not anticipate that the application of these amendments will have a material impact on the financial statements.

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

The financial statements of CGIF have been prepared in accordance with IFRS as issued by the IASB.

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

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

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

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

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

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

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

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

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

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

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

### *Cash*

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

### *Financial Instruments*

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

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

### *Financial Assets*

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

### *Effective Interest Method*

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

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

### *Loans and Receivables*

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

### *Investments*

All investment securities and negotiable certificate of deposits by CGIF are considered to be "Available for Sale" and are reported at fair value. Time deposits are reported at cost which is a reasonable estimate of fair value. Investment securities are recorded at trade dates. Except for foreign exchange gains or losses,

any gain or loss arising from change in fair value are recognized directly in other comprehensive income under member's equity.

#### *Derivative Financial Instruments*

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

#### *Impairment of Financial Assets*

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

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

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

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

#### *Derecognition of Financial Assets*

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

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

### *Guarantee Fee Receivable*

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

### *Guarantee Liability*

Guarantee liabilities recorded in the Statement of Financial Position represents the unamortized balance of the total present value of the guarantee fees received or expected to be received under the terms of the guarantee. Subsequently, the guarantee liabilities are measured at the higher of the unamortized balance of the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18, and the expenses required to settle any commitments which are probable and can be reliably estimated.

### *Revenue Recognition for Guarantee Fee*

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

### *Furniture, Fixtures and Equipment*

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

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

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

The estimated useful lives by asset class are as follows:

Asset Class	Useful Life
Office Furniture and Equipment	
Furniture	7-10 years
Other Office Equipment	4 years
IT and Communication	
Computer	3-4 years
Server	4-5 years
Network	4 years
Communication	7 years
Others	4 years
Building Improvement	Over the lease period

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

#### *Intangible Assets*

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

#### *Impairment of Tangible and Intangible Assets*

On regular basis, CGIF reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of asset's fair value less costs of disposal and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

#### *Offsetting Arrangements*

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

#### *Subscribed Capital*

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

The increase in the authorized capital of CGIF pursuant to Article 4.2 of the AoA was approved by the MOC. Instrument of Subscription (IOS) submitted to the Board Secretary, who acts on behalf of the Trustee, formally confirms the Contributor's intention to subscribe the number of shares specified. The additional subscription will be effective from the date the Board Secretary notifies the subscribing Contributor that the Instrument of Subscription has been received.

### *Segment Reporting*

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

### *Fair Value of Financial Instruments*

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

### *Functional and Presentation Currency*

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

### *Translation of Currencies*

CGIF adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in currencies other than USD to be translated to the reporting currency using the exchange rates applicable at the time of transactions. Contributions included in the financial statements during the period are recognized at applicable exchange rates as of the respective dates of commitment. At the end of each accounting period, translations of asset and liabilities which are not denominated in USD are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments are accounted for as unrealized foreign exchange gains or losses and are charged to operations in the Statement of Net Income.

### *Critical Accounting Estimates and Judgment*

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

## NOTE 4—RISK MANAGEMENT

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

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

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

### *Categories of Financial Instruments*

Categories of financial instruments as of 31 December 2017 and 2016 are as follows (in \$'000):

	2017	2016
<b>Financial assets</b>		
AFS investments	698,812	718,014
Derivative assets at fair value through profit or loss	-	465
Loans and receivables	79,456	52,579
<b>Financial liabilities</b>		
Derivative liabilities at fair value through profit or loss	991	565
Financial liabilities at amortized cost	1,328	1,945

### *Credit Risk*

As per Investment Guidelines, CGIF's long term investments are restricted to those with the international ratings of AA- or better, with the exception of investments in contributor countries' government-related securities that may be rated as low as the A+. For short-term investments, international ratings should be no lower than A-1. CGIF's deposits are placed in banks with short-term ratings of at least A-1. Credit risk in these investments is considered low.

CGIF only considers for bond issuers that hurdle a policy maximum acceptable risk rating. Acceptable borrowers undergo a stringent due diligence review. Guarantee Underwriting Proposals (GUPs) require approval of management's Guarantee and Investment Committee (GIC) and of the Board of Directors (Board). However, Since April 2017 when the Alternative Guarantee Approval Process (AGAP) was introduced, the approval authority has been delegated to GIC by the Board when a guarantee transaction meets the stringent conditions stipulated in the AGAP. In aid of informed decisions on GUPs, the Board is furnished with GUP review notes from CGIF's RMD and from an external advisor to the Board.

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

The carrying amount of financial assets recorded in the financial statements and the guarantee obligations disclosed in Note 7 represent CGIF's maximum exposure to credit risk.

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

### *Market Risk*

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

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

CGIF's Investment Guidelines restrict CGIF's investment portfolio duration to no more than 5 years. The duration of CGIF's portfolio means the market value-weighted average of effective duration of all outstanding investments. As of 31 December 2017, CGIF's investment portfolio had remaining maturities of up to 6.75 years (6.8 years - 31 December 2016), with the duration of 2.83 years (2.61 years - 31 December 2016). CGIF's investments are sensitive to interest rate movements. For CGIF's fixed income portfolio at year end 2017, it is estimated that a 100 basis points upward/downward parallel shift in the yield curve would cause an unrealized loss/gain of about \$20.3 million (\$18.8 million - 31 December 2016).

The following tables presents CGIF's foreign exchange exposure of monetary assets and liabilities (in '000) as at the end of the reporting period:

<b>2017</b>				
	<b>Asset</b>		<b>Liabilities</b>	
	<b>Local Currency</b>	<b>USD Equivalent</b>	<b>Local Currency</b>	<b>USD Equivalent</b>
PHP	241,541	4,830	3,549	71
IDR	5,443,217	401	-	-
MYR	44	11	-	-
JPY	-	-	303	3
THB	125	4	-	-
SGD	3,264	2,429	-	-
VND	260,650,017	11,478	-	-
<b>TOTAL</b>		<b>19,153</b>		<b>74</b>

<b>2016</b>				
	<b>Asset</b>		<b>Liabilities</b>	
	<b>Local Currency</b>	<b>USD Equivalent</b>	<b>Local Currency</b>	<b>USD Equivalent</b>
PHP	265,107	5,327	3,623	73
IDR	12,592,837	937	-	-
MYR	-	-	42	9
JPY	-	-	390	3
THB	160	4	-	-
SGD	4,479	3,090	-	-
VND	246,151,528	10,816	-	-
GBP	-	-	11	14
<b>TOTAL</b>		<b>20,174</b>		<b>99</b>

CGIF is exposed to foreign exchange risk underlying foreign currency payables and receivables relating mostly to CGIF's guarantee operation. Until November 2017, CGIF policy required the hedging of foreign exchange risk relating to guarantee fee receivables to the extent possible. Subject to the availability of hedge markets, transaction costs and administrative cost, it was possible that some foreign exchange risk exposure might be left without hedge. However, since November 2017, the hedging of foreign exchange risk guarantee fee receivables is no longer required and is done on a case-by-case basis. Accordingly, the foreign exchange exposure limit was deleted. For CGIF's foreign exchange exposure at 31 December 2017, it is estimated that a 10% adverse change in FX rates in the relevant foreign currency exposure will cause an instant loss of \$0.37 million after the effect of FX forward hedging transactions disclosed in Note 6 are taken into account (\$0.23 million - 31 December 2016).

### Counterparty Risks

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

In as much as offsetting arrangements are concerned, CGIF has in place a number of ISDA Master Agreements [and Global Master Repurchase Agreements] with financial institutions which are supported by industry legal opinions confirming the enforceability of the close-out netting provisions included in such agreements.

### Liquidity Risk

Liquidity risk can arise if CGIF is unable to provide funds to meet its financial and operational commitments. CGIF maintains adequate liquidity resources to meet the cash requirements and potential calls on the guarantees issued. CGIF assesses and monitors the availability of its liquid assets on a quarterly basis. CGIF conducts quarterly tests of its liquidity under stress scenarios where CGIF has to meet lumpy obligations related to claims on guarantees, and raise funds from various sources. The liquidity stress test in consideration of CGIF's guarantee portfolio as of 31 December 2017 and 2016 indicates that CGIF can generate the liquidity that that will be required to meet its payment obligations in the event of guarantee claims on CGIF.

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

	2017					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						
AFS Investments	-	-	79,812	512,348	106,652	698,812
Derivative assets at FVTPL	-	-	-	-	-	-
Loans and receivables	41,452	1,197	6,328	24,284	6,195	79,456
Total financial assets	41,452	1,197	86,140	536,632	112,847	778,268
Financial liabilities						
Derivative liabilities at FVTPL	109	151	731	-	-	991
Financial liabilities at amortized cost	94	266	745	223	-	1,328
Total financial liabilities	203	417	1,476	223	-	2,319
Net maturity gap	41,249	780	84,664	536,409	112,847	775,949

	2016					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						
AFS Investments	-	-	199,956	405,900	112,158	718,014
Derivative assets FVTPL	219	238	8	-	-	465
Loans and receivables	10,190	1,772	6,874	24,105	9,638	52,579
Total financial assets	10,409	2,010	206,838	430,005	121,796	771,058
Financial liabilities						
Derivative liabilities FVTPL	-	33	66	466	-	565
Financial liabilities at amortized cost	111	840	815	179	-	1,945
Total financial liabilities	111	873	881	645	-	2,510
Net maturity gap	10,298	1,137	205,957	429,360	121,796	768,548

### *Capital Resources*

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

### *Capital Adequacy*

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

### *Operating Risk*

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

## NOTE 5—INVESTMENTS

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

	2017	2016
Time Deposits	34,580	7,706
AFS Investments		
Government-related-entity or government-guaranteed obligations (GGO)	639,448	608,747
Corporate obligations	59,364	109,267
Total AFS	698,812	718,014
TOTAL INVESTMENT	733,392	725,720

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

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

The annualized rate of return on the average investments held during the year ended 31 December 2017, based on the portfolio held at the beginning and end of each month without the effect of change in fair value was 1.60% (1.46% - 31 December 2016)

The estimated fair value and amortized cost of the investments by contractual maturity as of 31 December 2017 and 2016 are as follows (in \$'000):

	2017		2016	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in less than one year	114,392	114,578	207,662	207,868
Due in one to five years	512,348	519,060	405,900	409,405
Due more than five years	106,652	109,144	112,158	115,697
TOTAL	733,392	742,782	725,720	732,970

### *Fair Value Disclosure*

The fair value of the investments as of 31 December 2017 and 2016 are as follows (in \$'000):

	Fair Value Measurements			
	2017	Level 1	Level 2	Level 3
Time Deposits	34,580	-	34,580	-
Government-related-entity or GGO	639,448	639,448	-	-
Corporate obligations	59,364	59,364	-	-

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

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

There were no inter-level transfers during 2017 and 2016. The GGO instruments under Level 2 in 31 December 2016 amounting to \$50 million matured in 2017.

The details of accrued interest income from investments as of 31 December 2017 and 2016 are as follows (in \$'000):

	2017	2016
Time Deposits	51	1
AFS Investments	3,415	3,323
TOTAL	3,466	3,324

## NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives held by CGIF are foreign exchange forwards that are entered into to manage foreign exchange risk from guarantee fee receivables denominated in a local currency. These represent commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlements of deliverable forwards will be made via delivery of forward proceeds at the agreed rates. The settlement of non-deliverable forwards (NDFs) will be the net amount between the contracted rate and the prevailing rate on an agreed notional amount.

The amounts in the Statement of Financial Position do not necessarily represent the amounts of future cash flows involved. The derivative instruments may become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market prices relative to their original terms of contracts. The extent at which the instruments can become favorable or unfavorable in fair values can fluctuate significantly from time to time. As of 31 December 2017, the changes in fair value of the foreign exchange forwards held which amounted to \$0.99 million was reported in the Statement of Financial Position as liability (31 December 2016 - \$0.47 million as asset and \$0.57 million as liability). The corresponding net loss in 31 December 2017 and 2016 was reported in the Statement of Net Income.

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

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

			Fair Value Measurements		
			Level 1	Level 2	Level 3
	2017				
	Nominal Amount	Fair Value			
FX Forwards	14,527				
Assets		-	-	-	-
Liabilities		991	-	991	-

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

There were no inter-level transfers during the year ended 31 December 2017 and 2016.

## NOTE 7 – GUARANTEES

As of 31 December 2017, CGIF has issued guarantees covering bonds denominated in Thai Baht, Indonesian Rupiah, Singapore Dollar, Vietnamese Dong and Philippine Peso. The total outstanding amount of the guarantees issued under the related bonds was \$1,096 million as of 31 December 2017 (\$1,120 million – 31 December 2016). The guarantees are inclusive of coupon payments.

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

31 December 2017				
	Local Currency			USD Equivalent of Total Obligation
	Principal	Coupon	Total Obligation	
SGD	475,000	112,320	587,320	437,092
VND	6,235,000,000	2,849,959,068	9,084,959,068	400,077
PHP	5,811,600	1,162,093	6,973,693	139,440
THB	2,780,000	333,828	3,113,828	95,027
IDR	300,000,000	33,558,000	333,558,000	24,610
				<u>1,096,246</u>

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

As of 31 December 2017, a guarantee liability of \$37.3 million (\$41.8 million - 31 December 2016) 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 \$34.5 million represents the present value of the stream of total guarantee fees expected to be received for the guarantee outstanding as of 31 December 2017 (\$38.6 million – 31 December 2016).

As of 31 December 2017 and 2016, all of CGIF's future guarantee fee receivables are classified as Level 3 within the fair value hierarchy.

The Financial Control Department is responsible for determining and reporting the fair value of guarantees reported in the Statement of Financial Position. Future guarantees are stated at discounted present value using significant unobservable inputs such as discount rates applicable to individual guarantee contracts that are internally determined and are classified under Level 3. The valuation technique and significant unobservable quantitative inputs for guarantee receivables classified as Level 3 as of 31 December 2017 and 2016 were summarized below:

	Valuation Technique	Unobservable Input	2017	Range 2016
Guarantee receivable	Discounted cash flows	Discount rates	3.15% to 10.02%	2.62% to 10.02%

There were no inter-level transfers during the year ended 31 December 2017 and 2016.

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

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

	<b>Office Furniture and Equipment</b>	<b>IT and Communications</b>	<b>Building Improvement</b>	<b>TOTAL</b>
<b>Cost</b>				
1 January 2016	211	196	5	412
Additions	27	9	-	36
Disposals	-	-	-	-
Transfers/ Reclassification	60	-	-	60
31 December 2016	298	205	5	508
Additions	2	67	-	69
Disposals	-	-	-	-
Transfers/ Reclassification	-	-	-	-
31 December 2017	300	272	5	577
<b>Accumulated Depreciation/Amortization</b>				
1 January 2016	(78)	(125)	(2)	(205)
Depreciation	(34)	(33)	-	(67)
Amortization	-	-	(2)	(2)
Transfers/ Reclassification	(30)	-	-	(30)
31 December 2016	(142)	(158)	(4)	(304)
Depreciation	(37)	(32)	-	(69)
Amortization	-	-	(1)	(1)
Transfers/ Reclassification	-	-	-	-
31 December 2017	(179)	(190)	(5)	(374)
NET, 31 December 2017	121	82	-	203
NET, 31 December 2016	156	47	1	204

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

## NOTE 9—INTANGIBLE ASSETS

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

	<b>Information Systems Software</b>
Cost	
1 January 2016	786
Additions	379
Disposals	<u>-</u>
31 December 2016	1,165
Additions	20
Disposals	<u>-</u>
31 December 2017	<u>1,185</u>
Accumulated Depreciation/Amortization	
1 January 2016	(444)
Amortization	(219)
Disposals	<u>-</u>
31 December 2016	(663)
Amortization	(219)
Disposals	<u>-</u>
31 December 2017	<u>(882)</u>
NET, 31 December 2017	<u>303</u>
NET, 31 December 2016	<u>502</u>

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

## NOTE 10—OTHER ASSETS

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

## NOTE 11—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of accruals for reinsurance expenses, the corresponding unamortized portion of the commission income from reinsurance, and accounts payable and accrual of administrative and operating expenses incurred but not yet paid.

## NOTE 12—RELATED PARTY TRANSACTIONS

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

Provision for ADB's administration fee, amounting to \$0.70 million, recorded in other miscellaneous expense was accrued in other liabilities. ADB's administration fee is equivalent to 10 bps of contributions received. The amount of \$0.70 million pertaining to ADB's administration fee for 2016 was settled subsequently in April 2017. Key management personnel total compensation of short-term employee benefits for 2017 amounted to \$2.67 million (\$2.55 million – 2016).

#### NOTE 13—PAID-IN CAPITAL

The increase in CGIF's authorized capital to 12,000 shares from 7,000 shares at \$100,000 per share was approved by the Contributors on 6 December 2017 per Resolution No. 2017-S-01. Each Contributor shall pay in full or in installments for the number of shares by the date indicated in the IOS. However, in case where payment cannot be made by a Contributor during the subscription payment period, the subscription is renounced and forfeited after one hundred and twenty (120) days following the last due date indicated in the IOS or the end of 2023, as applicable, or such later date as the Board may determine.

The subscribed capital stock of CGIF as of 31 December 2017 and 2016 are as follows (in \$'000):

	<u>2017</u>	<u>2016</u>
Authorized capital		
<i>12,000 shares in 2017 and 7,000 shares in 2016</i>	1,200,000	700,000
Subscribed	709,000	700,000
Unsubscribed	491,000	-
Total authorized capital	<u>1,200,000</u>	<u>700,000</u>
Subscribed capital comprises:		
Amounts received	703,000	700,000
Amounts not yet due	6,000	-
Total subscribed capital	<u><u>709,000</u></u>	<u><u>700,000</u></u>

The \$6 million unpaid subscribed capital shall be paid in two installments, 31 December 2018 and 2019. The AoA prescribe that shares shall be allocated to Contributors only after full payment has been received. Therefore, only paid-in capital shall be taken into account when calculating each Contributor's voting rights.

The details of CGIF capital as of 31 December 2017 are as follows (in \$'000 except for number of shares):

Contributor	31 December 2017			
	No. of shares	Subscribed	Amount received	Amount not yet received
Asian Development Bank	1,300	130,000	130,000	-
ASEAN Member Countries				
Brunei Darussalam	56	5,600	5,600	-
Cambodia	1	100	100	-
Indonesia	126	12,600	12,600	-
Lao People's Democratic Republic	1	100	100	-
Malaysia	126	12,600	12,600	-
Myanmar, Republic of the Union of	1	100	100	-
Philippines	216	21,600	15,600	6,000
Singapore	126	12,600	12,600	-
Thailand	126	12,600	12,600	-
Viet Nam	11	1,100	1,100	-
	<u>790</u>	<u>79,000</u>	<u>73,000</u>	<u>6,000</u>
Others (non-ASEAN Member Countries)				
China, People's Republic of	2,000	200,000	200,000	-
Japan Bank for International Cooperation	2,000	200,000	200,000	-
Korea, Republic of	1,000	100,000	100,000	-
	<u>5,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Total	<u>7,090</u>	<u>709,000</u>	<u>703,000</u>	<u>6,000</u>

As of 31 December 2016 total authorized capital of CGIF amounting to \$700 million was subscribed and paid.

#### NOTE 14— RESERVE

The allocation of 2016 net income in retained earnings to Reserve was approved by the Contributors at the 23 May 2017 Meeting of Contributors, per Resolution No. 2017-A-04.

#### NOTE 15— INTEREST INCOME

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

	2017	2016
AFS Investments	11,635	9,953
Guarantee	720	337
Time Deposits	173	133
Others	17	9
	<u>12,545</u>	<u>10,432</u>

#### **NOTE 16—MISCELLANEOUS INCOME**

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

#### **NOTE 17— ADMINISTRATIVE AND OPERATIONAL EXPENSE**

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

	<b>2017</b>	<b>2016</b>
Staff Related Expenses	5,104	4,686
Financial and Legal Services	612	956
Depreciation and Amortization	289	258
Short Term Staff Consultants	132	253
Business Travel	288	193
MOC and BOD Expenses	217	188
Rental Expense	135	142
Others	400	346
	<u>7,177</u>	<u>7,022</u>

#### **NOTE 18— REINSURANCE**

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

The reinsurance treaty was renewed on 7 December 2017 and shall apply to Guarantees issued during the 12 month period commencing on 1 January 2018 and expiring on 31 December 2018.

Reinsurance expense represents the quota share of the premium to be ceded to the consortium of reinsurers based on the reinsurance treaty. The expenses are accrued in the books over the period it covers. Quarterly statements of account (SOA) for the premium to be ceded are issued within 30 days from the end of each quarter and payments for such are due 15 days after the issuance of SOA.

#### **NOTE 19— WRITE-OFF EXPENSE**

Write-off expense represents a write-off of the withholding tax receivables that were deducted from guarantee fee payments of clients pending the clarification of tax exempt status. As management judged tax exemption was not applicable to these receivables, these accounts were directly written-off in the statement of financial position at the end of the year and such write-off was recognized in the profit of loss of the year.

## **NOTE 20— SUBSEQUENT EVENTS**

CGIF has evaluated subsequent events after 31 December 2017 through 19 April 2018, the date these Financial Statements are available for issuance. CGIF received additional capital contributions of \$142.8 million from Japan Bank of International Cooperation and \$9 million from Singapore. Cambodia submitted their IOS for their subscription of \$100 thousand worth of share. There are no other subsequent events, as defined, that require recognition or disclosure in the CGIF's Financial Statements as of 31 December 2017.



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