



Credit Guarantee &
Investment Facility

An Asian Bond Markets Initiative

**BROADENING
OUR
REACH**

**ANNUAL
REPORT
2016**





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ABBREVIATIONS

ABMI	-	Asian Bond Markets Initiative
AC	-	Audit Committee
ADB	-	Asian Development Bank
AFS	-	Available for Sale
AoA	-	Articles of Agreement
APRI	-	AP Renewables, Inc.
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
BOD	-	Board of Directors
CAP	-	Corrective Action Plan
CAR	-	Capital Ratio Adequacy
CEO	-	Chief Executive Officer
CGIF	-	Credit Guarantee and Investment Facility
CPG	-	Construction Period Guarantee
CRM	-	Credit Risk Mitigation
DOD	-	Deal Operations Department
ERMF	-	Enterprise Risk Management Framework
EXIM	-	Export-Import Bank
FAL	-	Formal Application Letter
FCD	-	Financial Control Department
FVTL	-	Fair Value Through Profit or Loss
FX	-	Foreign Exchange
GCP	-	Guarantee Concept Paper
GDP	-	Gross Domestic Product
GIC	-	Guarantee and Investment Committee
GUP	-	Guarantee Underwriting Proposal
IASB	-	International Accounting standards Board
ICRMC	-	Internal Control and Risk Management Committee
IFC	-	International Finance Corporation
IFRS	-	International Financial Reporting Standards

IVL	-	Indorama Ventures Public Company Limited
IRR	-	Internal Risk Rating
ISDA	-	International Swaps and Derivatives Association
JBIC	-	Japan Bank for International Cooperation
JSC	-	Joint Stock Company
LCY	-	Local Currency
MOC	-	Meeting of Contributors
MOF	-	Ministry of Finance
MPMF	-	Mitra Pinasthika Mustika Finance
MTNs	-	Medium Term Notes
NRC	-	Nomination and Remuneration Committee
OP	-	Operational Policies
OR	-	Operational Review
ORI	-	Operating Risk Incident
PFI	-	Project Finance International
PIP	-	Preliminary Information Packs
PRC	-	People's Republic of China
RCSA	-	Risk and Control Self-Assessment
SAA	-	Strategic Asset Allocation
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 Dollars unless otherwise stated

An aerial photograph of a boat moving across a vast expanse of deep blue water. The boat is positioned in the lower center of the frame, leaving a wide, V-shaped wake behind it. The water's surface is textured with ripples and small waves. The boat itself is white with some blue and green accents on its deck.

CGIF AT A GLANCE

+

◎ SUMMARY



BACKGROUND

The Credit Guarantee and Investment Facility (CGIF) was established by the ASEAN+3¹, 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.

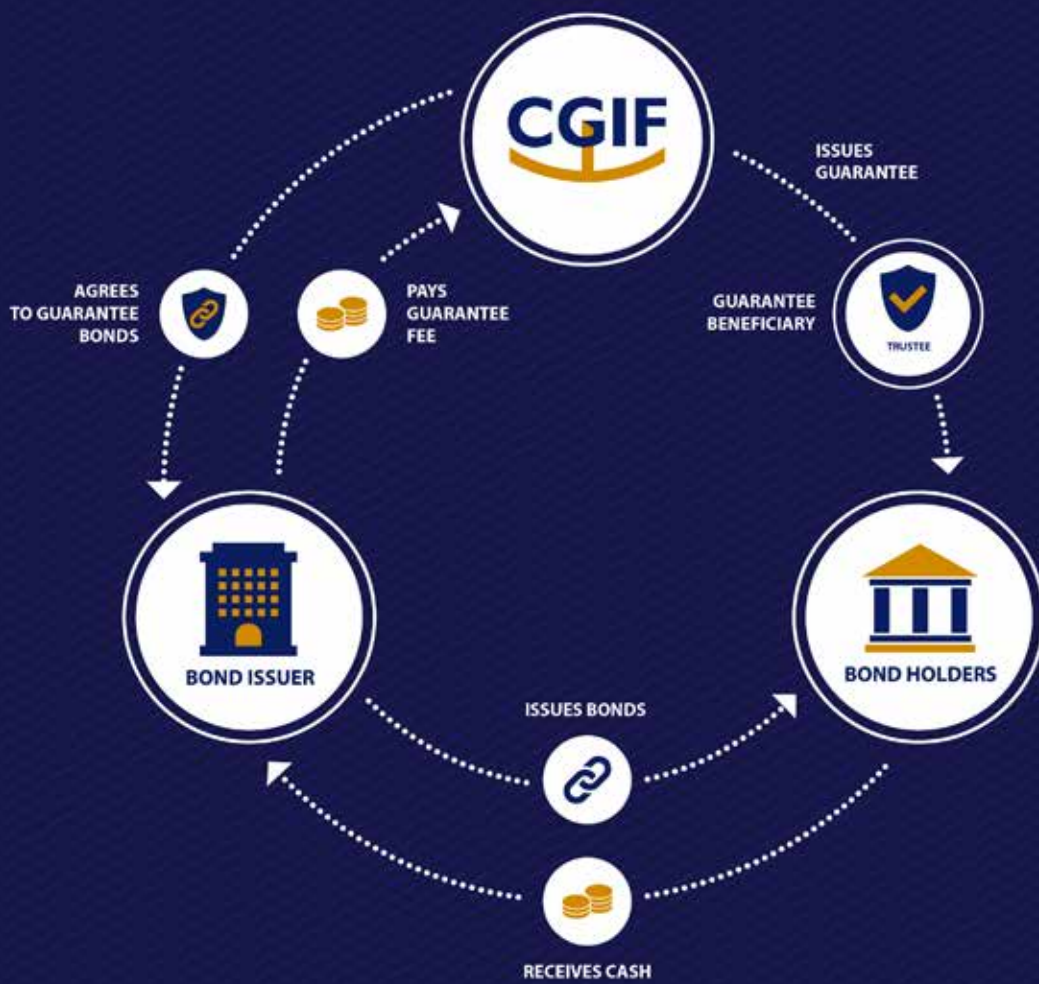
ADB is the trustee of CGIF and as such, in line with the provisions of the Articles of Agreement, holds in trust and manages all CGIF funds and other properties.

This Annual Report for 2016 includes Independent Auditor's report and the Financial Statements for 2016.

¹ 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

GENERAL BOND GUARANTEE STRUCTURE*



+
*To ensure applicability of the guarantee in multiple jurisdictions in the ASEAN+3 countries, some variations to this structure may be incorporated to accommodate the established market norms. +

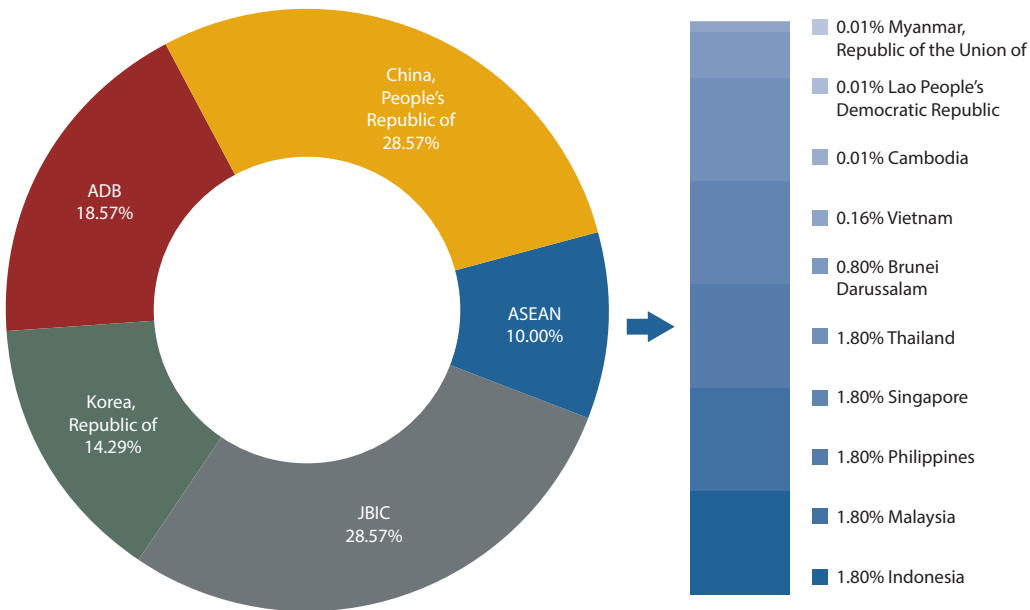
OUR CONTRIBUTORS

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.

The authorized capital of CGIF is \$700 million, divided into 7,000 shares, with a nominal value of \$100,000 each. All shares are subscribed and paid in full by the contributors since April 2012.

The illustration below shows each contributor's ownership rights in proportion to their capital contribution.

FIGURE 1: CONTRIBUTOR OWNERSHIP



MILESTONES

2010

NOVEMBER

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



OCTOBER

First guarantee offer issued



2011

MAY

Net income for FY2010 & 2011 (\$6.5 M) was allocated to Reserve

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



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



APRIL

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



2013

SEPTEMBER

BOD approved guarantee capacity scaling-up proposal



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)



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

2012

2015

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

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

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

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

MAY
Net income for FY2013 (\$2.7 M) was allocated to Reserve

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



MAY
Net income for FY2014 (\$3.5 M) allocated to Reserve



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

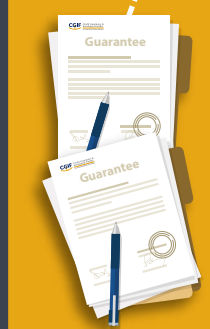
MAY
Cambodian Investors' Forum
• First event held by CGIF in Cambodia with the Ministry of Economy and Finance of Kingdom of Cambodia to spur the development of a local bond market



APRIL
Second tranche of the tenth guarantee issued
• Issuance of another IDR three-year bonds by MPMF

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



JULY
Construction Period Guarantee (CPG) launch
• CGIF launched a new guarantee product aimed to mitigate construction risks of greenfield infrastructure projects

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



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



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

2014

2016

+ ◎ HIGHLIGHTS



“The CGIF-guaranteed bonds’ low-cost and long tenors are highly supportive of Vingroup’s long term investment strategies. We were pleased to work with CGIF’s management and deal teams who were very experienced and responsive in order to meet our proposed execution time-table. This landmark transaction also demonstrated Vingroup’s leadership in expanding the offering of corporate financing solutions, as well as providing more investment options for international financial investors and insurance companies in Viet Nam”

– Mdm. Duong Mai Hoa, Chief Executive Officer of Vingroup JSC

VINGROUP JSC (“VINGROUP”)

Vingroup, with a market capitalization of \$3.7 billion as of 31 January 2016, is the largest listed developer and manager of real estate, and hospitality and entertainment properties in Viet Nam. The group has a diversified portfolio across six business segments: Property, Hospitality and Entertainment, Consumer Retail, Healthcare, Education, and Agricultural Products.

On 18 February 2016, five-year and ten-year bonds issued by Vingroup were guaranteed by CGIF. The two tranches, issued on the same day, with a total

size of 3 trillion Vietnamese Dong, were both fully subscribed by a domestic bank and asset manager, and by Viet Nam-based international insurance companies, respectively.

This transaction marks CGIF’s debut in the rapidly growing real estate sector in ASEAN economies like Viet Nam. It is also CGIF’s first multi-tenor guarantee and its largest transaction in Viet Nam to date.

With the support of CGIF, Vingroup was able to issue tenors with flexibility, and hence, match property development cashflow and long-term funding with recurring income streams.





"This is a landmark transaction for the Philippines, and the Asia-Pacific region in terms of both capital markets development and climate finance.

The transaction is highly innovative, representing the first project finance bond ever issued in local currency in the power sector in the Philippines and the first credit-enhanced project bond in Southeast Asia (excluding Malaysia) since the 1997-98 Asian financial crisis."

– Reginaldo Cariaso, Sr. Vice President – Managing Director & OIC of BPI Capital Corporation

AP RENEWABLES, INC. ("APRI")

CGIF supported the first Climate Project Bond in Asia when, on 8 March 2016, APRI, which operates two geothermal energy facilities with an installed capacity of 676 megawatts, making it one of the world's largest in its industry, issued a PHP 10.7 billion privately-placed bond with a ten-year tenor, wherein CGIF risk-shares the rights and obligations of the fronting guarantor, Asian Development Bank (ADB), on a first loss basis up to its guaranteed exposure of PHP 4.687 billion or \$100 million in equivalent.

For CGIF, this is the first partial guarantee transaction as well as its first joint guarantee transaction with another multilateral organization.

In addition, it is an inaugural bond issuance by APRI and is the first guarantee transaction for CGIF in the Philippines.

This transaction has been internationally recognized for its innovation and has received numerous awards including "Asia Pacific Bond Deal of The Year" by Project Finance International, "Best Renewable Finance Deal of The Year" by Alpha Southeast Asia, "Debt Market Deal of The Year – Philippines" by Asia Legal Business, "Asia Pacific Project Bond of The Year" by IJ Global, "Green Bond Deal of The Year" in Green Bond Awards 2017, and "Project Bond of The Year" by Environmental Finance Magazine's Green Bond Awards.



"The successful use of credit enhancement for Tiwi-MakBan demonstrates that project bonds have a vital role in financing infrastructure investment in Asia and the Pacific. Credit-enhanced project bonds offer a viable alternative to bank financing while mobilizing long-term capital to close the region's infrastructure gap."

– Todd Freeland, Director General of ADB's Private Sector Operations Department



Asia Pacific Bond Deal of the Year



Best Renewable Finance Deal of the Year



Debt Market of the Year - Philippines



Asia Pacific Project Bond Deal of the Year



Green Bond Deal of the Year



Project Bond of the Year



“Diversification of funding source is one of our important strategic initiatives. It is an epoch-making deal for us, and we had a great honor to be supported by all the parties, especially CGIF and Sampo Japan Nipponkoa Insurance.”

– Hideo Yoshino, Former President Director of MPMF

PT MITRA PINASTHIKA MUSTIKA FINANCE (“MPMF”)

MPMF is a Jakarta-based company co-owned by an Indonesian and Japanese corporate that operates as a subsidiary of PT Mitra Pinasthika Mustika Tbk. It provides car financing and finances lease services for customer’s acquisition of vehicles, machinery, heavy equipment, and many others, and has several branches to serve its Indonesian customers. It also offers credit to corporations, medium and small enterprises, and consumers in Indonesia.

CGIF issued a guarantee to help MPMF tap bond financing for the first time by debuting Indonesian Rupiah bonds. With CGIF’s guarantee, MPMF

issued IDR 300 billion three-year Medium Term Notes (MTNs) in the Indonesia local currency bond market with the participation of an established Japanese investor, The Sampo Japan Nipponkoa Insurance, Inc.

The first tranche of MTNs, with a size of IDR 140 billion, was issued on 11 March 2016 and, after its success, the second tranche with a size of IDR 160 billion was issued on 28 April 2016.

CGIF’s credit enhancement enabled MPMF to diversify its funding sources and achieve more favorable terms. At the same time, it opened the doors for offshore institutional investors to invest in an Indonesian Rupiah corporate bond.





“The CGIF halo provides strong support to Fullerton Health as a credit and will put us in a good position to be a repeat issuer in the capital markets on a standalone basis going forward.”

– Sherwin Loh, Managing Director of SIN Capital Group and Director on the Board of Fullerton Health

FULLERTON HEALTHCARE CORPORATION LIMITED (“FULLERTON HEALTH”)

Fullerton Health is a distinguished provider of corporate healthcare solutions across the Asia Pacific region. Since its founding in Singapore in 2011, it has continually been growing as a regional leader in providing corporate healthcare solutions. The Singapore-based company, which is now present in five countries—Hong Kong, Malaysia, Indonesia, Singapore, and Australia—currently owns more than 190 medical centers and has served over ten million lives. With more than 25,000 corporations, comprising of multinational companies and enterprises, including government organizations patronizing their services, Fullerton Health has already become one of the region’s leading health services providers in a relatively short period of time.

With CGIF’s guarantee, Fullerton Health made its debut in the Singapore Dollar bond market on 7 July 2016. Amidst the unfavorable and volatile capital market conditions in the immediate aftermath of Britain’s referendum to exit the European Union (Brexit), Fullerton Health successfully issued SGD 100 million bonds with two tranches, with tenors of five years and seven years, respectively.

The bonds were three times oversubscribed, enabling Fullerton Health to raise cost-efficient financing via the bond market. This marks CGIF’s first guarantee for a Singaporean corporate, and the first local currency bond priced in the ASEAN following Brexit. It also marks CGIF’s first exposure to the healthcare sector.





“The CGIF guaranteed bond programme is a significant milestone and major catalyst for KNM Group as it provides additional liquidity and financial flexibility for KNM Group’s Thai bio-ethanol project working capital needs and will help us to fulfil our vision and strategic growth plans.”

– Mr. Lee Swee Eng, Group CEO of KNM Group

KNM GROUP BERHAD (“KNM”)

KNM is a Malaysian-based leading global manufacturer of process equipment and processing units for the downstream oil and gas, petrochemicals, minerals processing, desalination, renewable energy, chemicals, and power industries, among other things. Its major customers are international oil and gas, petrochemicals, energy and minerals processing companies and global engineering contractors.

In addition to the strength of its core business, KNM has been transforming itself into a renewable energy producer and developer to generate recurring income and sustainable growth in the long term.

Supported by CGIF, KNM issued THB 2.78 billion bonds with a five-year tenor for a Thai bio-ethanol project. This project is expected to begin generating recurring income by 2017, in line with the Thai government’s thrust to encourage and promote cassava bio-ethanol production in the country.

This transaction is a milestone as it marks the first collaboration between CGIF and Danajamin of Malaysia who worked with KNM on raising additional working capital and helped address KNM’s currency mismatch.



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© FINANCIAL SUMMARY



FIGURE 2: NET INCOME

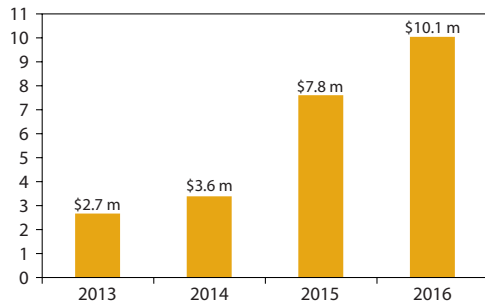


FIGURE 3: INVESTMENT INCOME

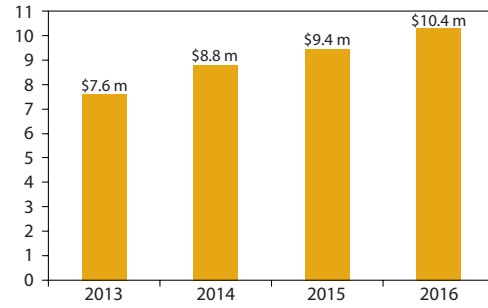


FIGURE 4: GUARANTEE INCOME

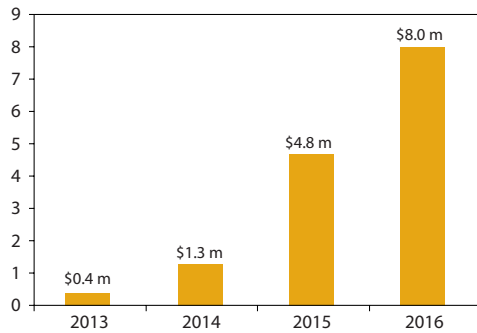


FIGURE 5: OUTSTANDING GUARANTEE ISSUED

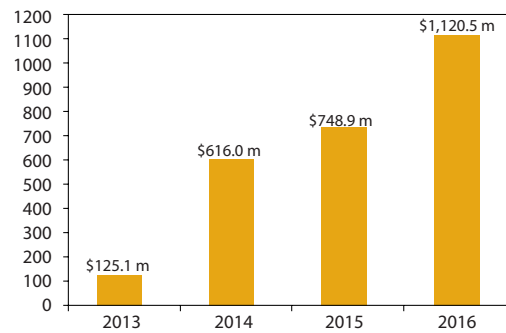
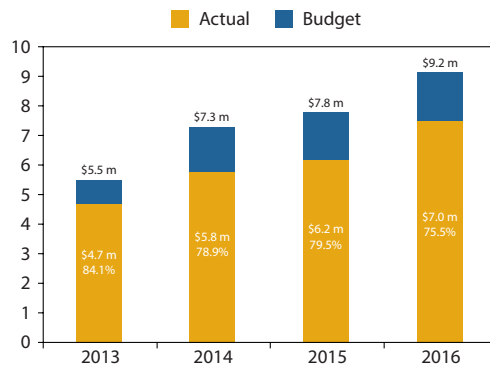
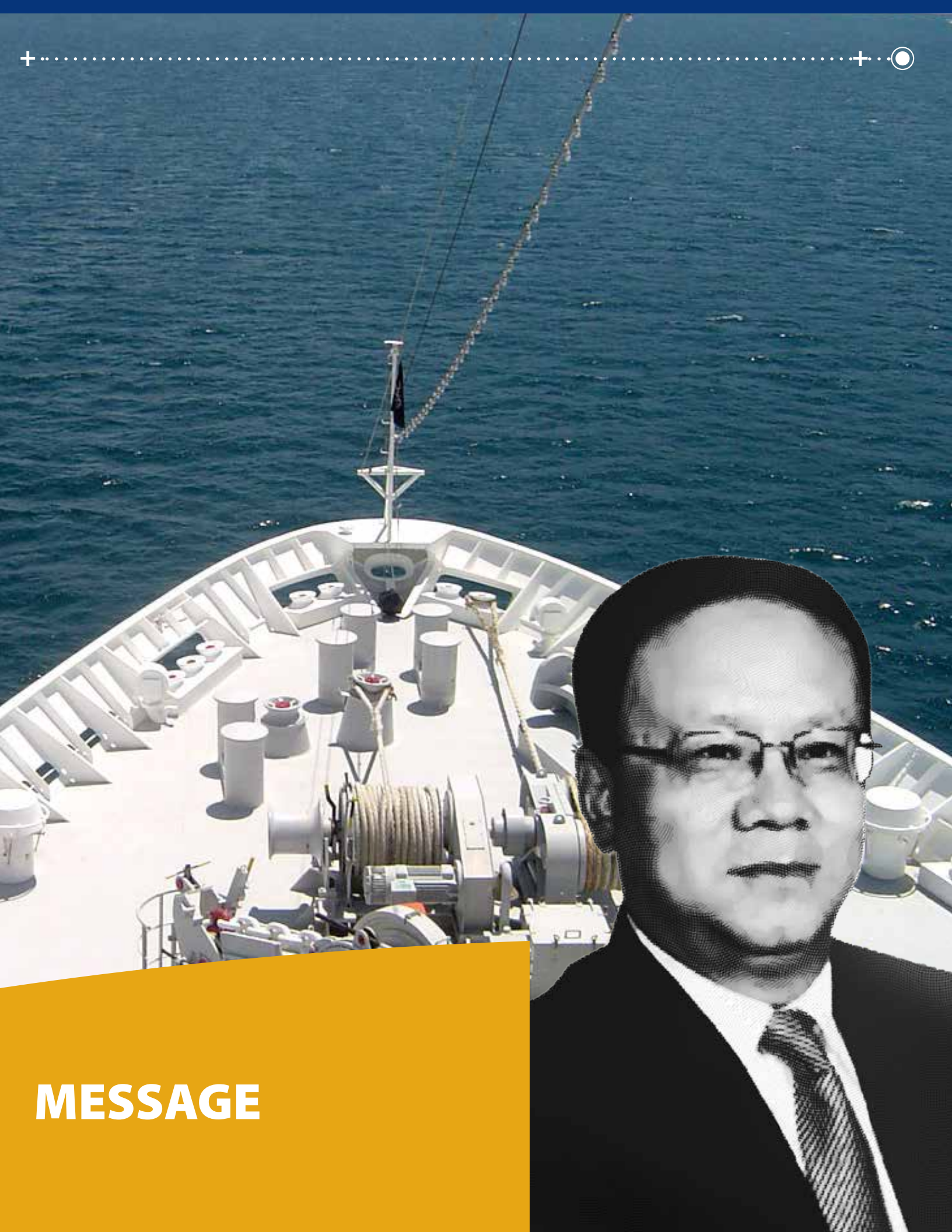


FIGURE 6: ACTUAL VS. BUDGET (OPERATING AND ADMINISTRATIVE EXPENSES)



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



MESSAGE

FROM THE CHAIRMAN OF THE BOARD

It has been more than six years since the ASEAN+3, together with ADB, established the Credit Guarantee and Investment Facility (CGIF). CGIF was established to provide credit enhancement and make investments, 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 and regional bond markets.

By the end of 2016, CGIF has already issued sixteen guarantees to twelve companies from eight of the ASEAN+3 countries in five local currency bond markets in the ASEAN, marking the successful completion of the initial phases of CGIF's operations. As CGIF progressed into the next phase of its operations, the Board focused its efforts during 2016 on strengthening CGIF's roles in developing local currency and regional bond markets and formulating CGIF's medium-term business strategy for the next ten years to perform effectively such roles. This also led to the initiation of discussions at the Board to consider options to address possible constraints of CGIF's guarantee capacity in the near future.

As part of such roles, the Board now hopes that CGIF intensifies 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.

To this end, the Board is pleased that during 2016, CGIF conducted its first Investor Forum in Cambodia to support the Cambodian government's effort to develop its capital market.

The board has also supported other new initiatives that will drive CGIF's unique role in developing the ASEAN local currency bond market. Among these initiatives is the launch of CGIF's new guarantee product, the Construction Period Guarantee (CPG), which aims to address concerns of construction risks from conservative long-term investors about greenfield infrastructure projects.

The Board has also noted that in the same year, CGIF successfully entered its first reinsurance treaty with the world leading reinsurers, thereby enhancing CGIF's capacity to serve as a unique catalyst to the development of ASEAN local currency bond markets.

But although 2016 has shown 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 structural impediments and common challenges such as narrow issuer and investor base, limited tenors, slow financial integration, and lack of diversified bond instrument types. Thus, CGIF's catalytic role will remain critical and relevant to the foreseeable future. CGIF is committed to addressing these structural impediments and common challenges and contributing to the stability of bond markets. The Board, likewise, will continue to uphold its commitment to CGIF and its important mission.



JIAN LI

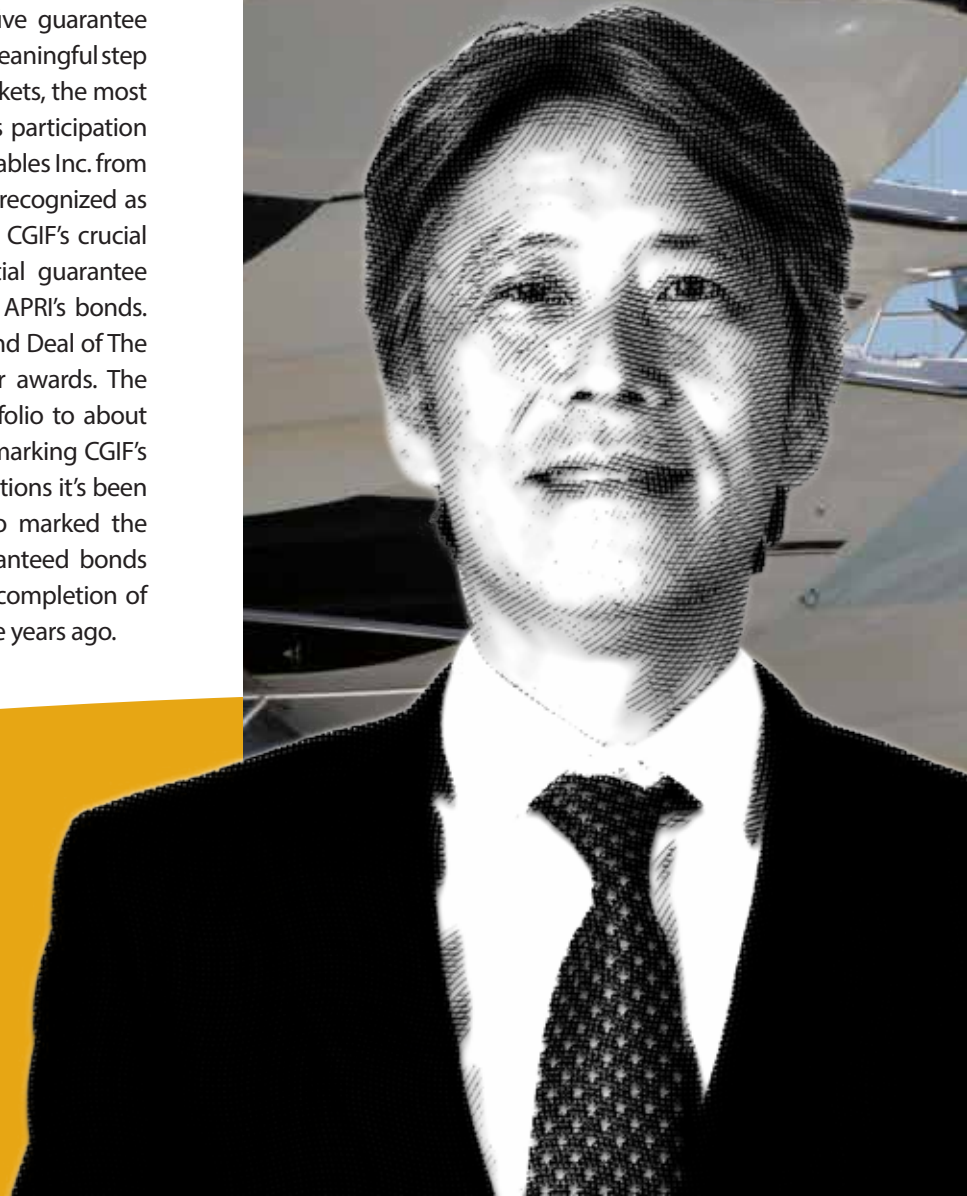
Chairman, Board of Directors

FROM THE CHIEF EXECUTIVE OFFICER (CEO)

In the fiscal year 2016, CGIF achieved considerable progress in diversifying its guarantee portfolio, in promoting project bonds to finance infrastructure and support green or climate bonds, and in laying the ground work for more complex guarantees, including partial guarantees and securitization transactions. Inaugural issuances of guarantees to companies from Malaysia, Philippines, and Singapore that year further expanded CGIF's coverage, in terms of guarantee recipients, to eight countries out of the thirteen countries in the ASEAN+3 region. In terms of bond markets, CGIF has issued bonds in five out of the six available local currency bond markets in the ASEAN.

2016 also saw CGIF closing a record five guarantee transactions. While each of them was a meaningful step in the progress of the ASEAN bond markets, the most notable transaction was the company's participation in the project bond issued by AP Renewables Inc. from the Philippines. This bond, which was recognized as a climate bond, was made possible by CGIF's crucial risk participation of the fronting partial guarantee from the Asian Development Bank for APRI's bonds. This bond was awarded Asia-Pacific Bond Deal of The Year by PFI and won numerous other awards. The busy year brought the guarantee portfolio to about \$1 billion in local currency equivalent, marking CGIF's steady build-up of the guarantee operations it's been running since May 2012. The year also marked the timely redemptions of two CGIF guaranteed bonds issued in 2013, marking the successful completion of CGIF's inaugural guarantees issued three years ago.

MESSAGE



Also in that year, a new product, the Construction Period Guarantee (CPG), was launched to further develop and promote the ASEAN+3 bond markets as an avenue for financing infrastructure projects. This product was designed to alleviate the construction risks of greenfield infrastructure projects, in an effort to entice long-term investors to support such projects.

During 2016, CGIF also intensified its efforts to kick start local currency bond markets in ASEAN countries which still don't have functioning bond markets. CGIF organized, together with the Ministry of Economy and Finance of kingdom of Cambodia, a bond market forum in Phnom Penh, Cambodia last May. The success of this event stimulated stakeholders' interest for bonds in a market where debt securities have yet to be issued. This has paved way for CGIF's continued efforts in working towards the first bond in Cambodia, which includes providing inputs to the draft regulations being considered by the Cambodian Securities and Exchange Commission.

As its guarantee portfolio grew, it became urgent for CGIF to address possible exhaustion of the current maximum guarantee capacity which is based on CGIF's capital base and the Maximum Leverage Ratio of 2.5:1. In order to give some relief in the capacity constraint issue, CGIF secured a quota share reinsurance treaty with a panel of global reinsurers in October 2016, following setting internal rules about treatments of credit mitigation arrangements including reinsurance by adopting the Credit Risk Mitigation guidelines in August 2016. This does not only signify a strong endorsement by the private reinsurers about the high quality of CGIF's guarantee operations, but also the evolution of the nature of CGIF operations into a public-private partnership where private risk capital is mobilized through CGIF for development of local currency bond markets in the region.

CGIF's 2016 revenue from guarantee fees increased significantly by 65% and the return on investment income on capital resources improved to 1.46% with the implementation of the Strategic Assets Allocation (SAA) which is designed to optimize the investment allocation of CGIF's investment portfolio. Coupled with conservative expenditure policies, this led to a growth of net income by approximately 30% as compared to the previous year. The increased profitability, propelled by increased guarantee fees and the quality strength of its guarantee portfolio, continues to underpin CGIF's financial strength as evidenced by its strong and consistent ratings.

In all other aspects of CGIF's operations, CGIF made constant efforts to improve the quality as well as the efficiency of its operations including enhancement of risk assessment, portfolio monitoring and forex risk hedging capabilities to be ready for further business growth.

The work completed during the productive year laid the foundation for an exciting 2017. We hope to break new ground in the areas of securitization and green bonds and to develop the frontier markets in the ASEAN, which has yet to have a bond market. CGIF can now build on the successes of the past year and further pursue its mission of promoting financial stability and mobilizing savings via bond markets in the ASEAN+3 region.

西村 潔

KIYOSHI NISHIMURA
Chief Executive Officer



BUSINESS AND OPERATIONAL REVIEW

GUARANTEE OPERATIONS

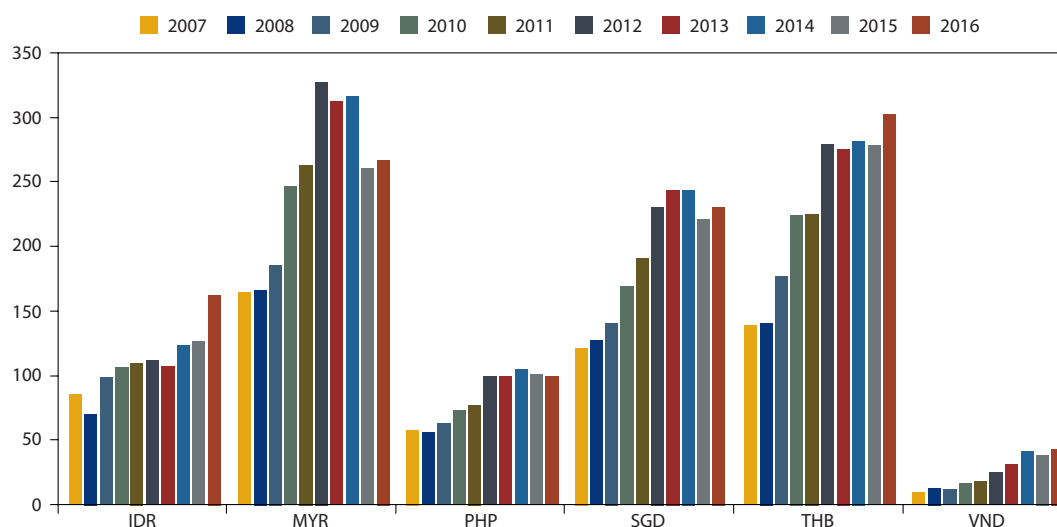
MACROECONOMIC AND BOND MARKET OVERVIEW

The global economy recorded a steady growth of 3.1% in 2016—a rate aligned with that of the previous year's. Underpinning this is the strength of emerging and developing economies, which contrasted with the anemic growth rates of developed economies. Advanced economies, which continued to be plagued by sluggish growth at the start of the decade, were further affected by the unexpected decisions of their constituents, making policy directions even more unpredictable. Countries in South East Asia, however, continued to power ahead, expanding 4.8% in 2016—a slightly higher than the 4.7% registered in 2015.

Overcoming their respective challenges, ASEAN countries in general were able to brush off the impact of currency depreciation and higher interest rates in 2016 to maintain robust economic activities. Robust growth rates of 6%-7% from Cambodia, Lao PDR, Myanmar, Philippines, and Viet Nam were able to off-set the slower growth rates from Brunei, Singapore, and Thailand. Indonesia and Malaysia, with fairly large economies in the region, recorded respectable growth rates in excess of 4%.

The economic activities of the region will continue to be strengthened by increased urbanization and economic reforms. While uncertainties remain with respect to global trade flows, increased investments in the region and the need for capital formation (to ensure sustained economic activities) will point to a larger involvement of bond markets in the ASEAN region.

FIGURE 7: LCY BOND MARKET SIZE



The region's six local currency bond markets continued to show resilience despite slower economic growth in 2016 across the region. When measured in USD terms, the depreciated currencies in the region tempers the actual expansion of the bond markets observed.

As a result, the size of ASEAN Local Currency (LCY) bond markets, as measured against each country's GDP, grew moderately for Indonesia (2.5%), Singapore (2.1%), and Thailand (2.4%), but contracted for Malaysia (-1.8%), Philippines (-2.1%) and Viet Nam (-0.3%) in 2016.

Focusing on LCY terms, the ASEAN LCY bond markets all showed healthy growth rates ranging from 2.5% to 25.1%. A primary contributor to this growth is the increase in corporate bond issuances, which grew considerably faster than government bond issuances, in all ASEAN LCY bond markets with the exception of SGD, where the corporate bond market remained flat relative to the levels registered in 2015. LCY corporate bonds in Malaysia and Philippines increased moderately by 5% and 9%,

respectively. Considerable expansion in Indonesia (24%), Thailand (16%), and Viet Nam (39%) pointed to the rapid increase of the corporate bonds issued to finance economic activities. These encouraging growth rates need to be sustained in the next years as the markets remain relatively small compared to the respective banking sectors and GDPs.

These all point to the importance of a healthy and continued access to ASEAN LCY corporate bonds by private sector issuers. But because a number of markets are still at the early stages of development, additional intervention to encourage more confidence in the LCY markets is required. The need to overcome rating cliffs, to triumph over investor aversion to corporate bonds, and to expand the investor base remain pronounced. Aside from encouraging new issuers, introducing new bond products like project bonds, asset-backed securities arising from securitization and green bonds, which have not yet featured materially in many of the developing ASEAN LCY bond markets, will be the impetus for future growth.

2016 GUARANTEES OPERATION

In 2016, CGIF guaranteed up to \$410 million local currency equivalent from eight bonds issued by five companies, seven of which are 100% guaranteed while the other is under a risk-sharing with the Asian Development Bank (ADB). Three of the five issuers issued two tranches each, making it a total of eight guarantees issued for the year. Among these, CGIF achieved numerous key milestones which included supporting a climate project bond, as well as guaranteeing companies from new jurisdictions and sectors.

CGIF's Board of Directors approved five guarantee proposals that year. Two of those were successfully issued within the year together with the carryover transactions from 2015 namely, in chronological order of issuance: Vingroup's 100% guaranteed two tranches of five-year and ten-year bonds, APRI's partially guaranteed ten-year bond, MPMF's 100% guaranteed two tranches of three-year bonds, Fullerton's 100% guaranteed two tranches of five-year and seven-year bonds, and KNM's 100% guaranteed five-year bond. The remaining three transactions were carried

over to 2017 and, as of this writing, one of them have already been concluded and reached the issuance of its first tranche.

CGIF GUARANTEE PORTFOLIO

In 2016, CGIF issued eight guarantees totaling \$410 million local currency equivalent to five companies. By the end of 2016, CGIF's guarantee portfolio expanded by a net amount of six guarantees with the new issuances and the successful maturities of two previously issued guarantees. This resulted in a total guarantee portfolio outstanding of \$917 million local currency equivalent (in terms of principle amount based on the exchange rate at issuance).

GEOGRAPHICAL DISTRIBUTION OF APPLICANTS AND TRANSACTIONS FOR 2016

CGIF has continued to receive inquiries relating to a considerable number of opportunities in the region, with 41 new Preliminary Information Packs (PIPs) submitted in 2016. This included opportunities from nine out of the thirteen ASEAN+3 countries.

TABLE 1: GUARANTEE PORTFOLIO AS OF 31 DECEMBER 2016

ISSUE DATE	ISSUER	COUNTRY OF ORIGIN (ISSUER)	BOND ISSUANCE VENUE (BOND MARKET)
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
18-DEC-14	PT ASTRA SEDAYA FINANCE	 INDONESIA	 SINGAPORE
05-DEC-14	MASAN CONSUMER HOLDINGS	 VIET NAM	 VIET NAM
27-NOV-14	PROTELINDO FINANCE BV*	 INDONESIA	 SINGAPORE
21-AUG-14	KOLAO HOLDING	 LAO PDR	 SINGAPORE
18-MAR-14	PT BCA FINANCE TRANCHE 2	 INDONESIA	 INDONESIA

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

ISSUE SIZE	ISSUE SIZE (USD)	PERCENTAGE GUARANTEED BY CGIF	ISSUE RATING (AGENCY)	TENOR
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
SINGAPORE DOLLAR 100 MILLION	\$76 MILLION	100%	UNRATED	3 YEARS
VIETNAMESE DONG 2.1 TRILLION	\$98 MILLION	100%	UNRATED	10 YEARS
SINGAPORE DOLLAR 180 MILLION	\$138 MILLION	100%	AA (S&P)	10 YEARS
SINGAPORE DOLLAR 60 MILLION	\$48 MILLION	100%	AA (S&P)	3 YEARS
INDONESIA RUPIAH 120 BILLION	\$11 MILLION	100%	UNRATED	3 YEARS

**FIGURE 8: PRELIMINARY INQUIRIES BY COUNTRY
(PRELIMINARY INQUIRIES RECEIVED, YEAR 2016)**

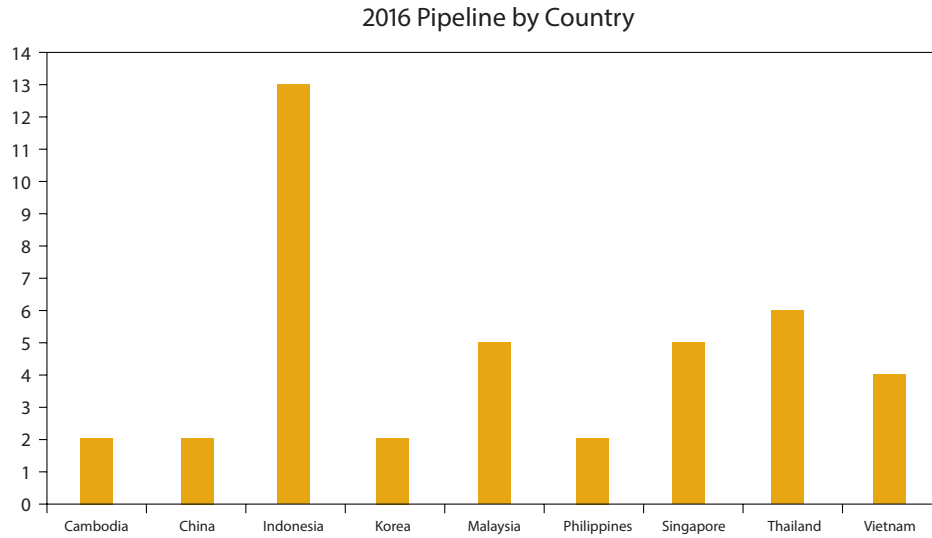
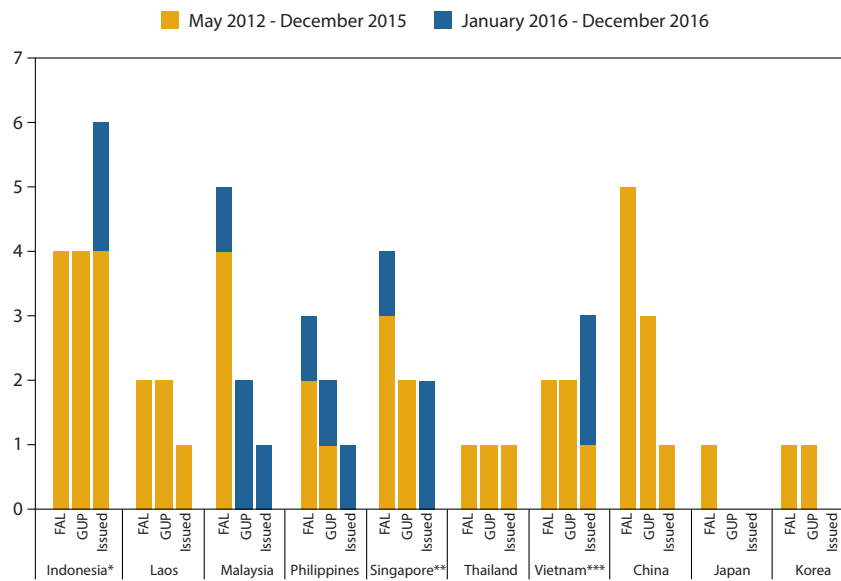
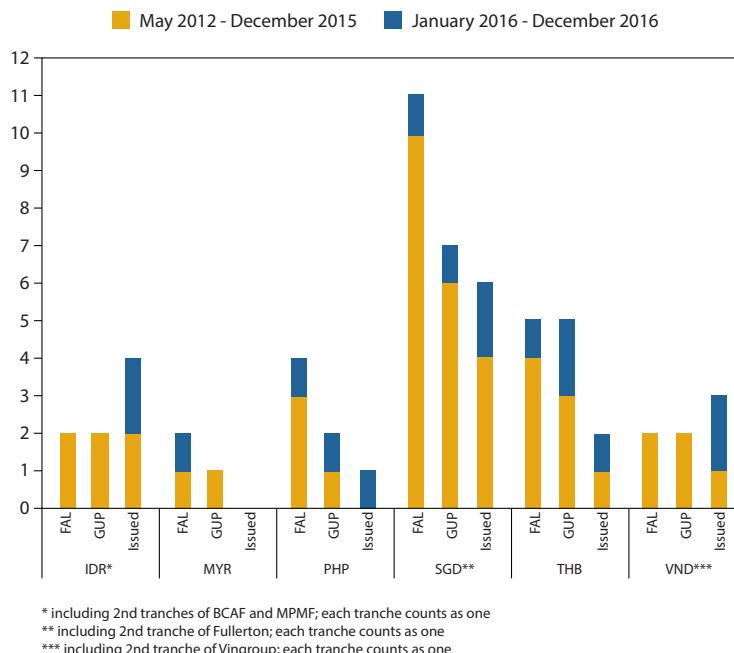


FIGURE 9: FORMAL APPLICANTS, GUARANTEE APPROVALS, AND GUARANTEES ISSUED BY COUNTRY (CUMULATIVE, MAY 2012 - DECEMBER 2016)



* including 2nd tranches of BCAF and MPMF; each tranche counts as one
 ** including 2nd tranche of Fullerton; each tranche counts as one
 *** including 2nd tranche of Vingroup; each tranche counts as one

FIGURE 10: FORMAL APPLICANTS, GUARANTEE APPROVALS, AND GUARANTEES ISSUED BY CURRENCY (CUMULATIVE, MAY 2012 - DECEMBER 2016)



Steady progress was achieved as efforts to expand the guarantee portfolio to more companies in the region continued. In 2016, CGIF issued its first guarantees to a Malaysian, Filipino, and Singaporean domiciled companies. This brings CGIF’s operations to cover issuers from a total of seven out of ten ASEAN countries and eight out of thirteen countries in the ASEAN+3 region. With respect to currencies, CGIF has now issued guarantees to five local currencies out of the six local currency bond markets available in ASEAN. These include Vietnamese Dong, Philippine Peso, Indonesian Rupiah, Singapore Dollar, and Thai Baht.

Notably, CGIF made its foray into supporting green infrastructure with the Climate Philippines Peso Bonds issued by AP Renewables Inc. With the launch of the construction period guarantee, CGIF hopes to encourage long-term investors to support greenfield bonds issued to build critical infrastructure in the region.

CGIF will continue to look for opportunities to support bond market development in other ASEAN

countries, including those which still do not have functioning local currency corporate bond market.

CONSTRUCTION PERIOD GUARANTEE (“CPG”)

CPG is a new product that CGIF introduced to address concerns of construction risks from conservative long-term investors about greenfield infrastructure projects. With this new guarantee, investors are being assured of the commencement of operations and completion of construction works. CPG is designed to frame the boundaries of risks during the construction period within acceptable levels, following a methodological assessment process, to ensure that construction risks are adequately mitigated.

This assessment framework that underpins CGIF’s CPG product is envisaged to drive the quality of the regions’ projects to higher levels, particularly in respect to addressing construction-related risks.

Following the implementation of a pilot project, CGIF hopes to share its experience with the

assessment framework with other guarantors and bond investors and unlock the vast pools of conservative long-term savings to build critically needed infrastructure in the region.

REINSURANCE TREATY

In October 2016, CGIF broke new ground with the execution of a reinsurance treaty with a panel of global reinsurers. This marks another stage in the evolution of CGIF and its unique role in developing the ASEAN local currency bond market. The reinsurance panel was led by one of the world's largest and reputable credit reinsurer, Munich Re.

Under this treaty, all guarantees in CGIF's existing portfolio, including those that will be issued up to the end of 2017, are covered by partial reinsurance by the panel of reinsurers. This allows CGIF to issue more guarantees, thereby enhancing its ability to perform its unique catalytic role in developing ASEAN local currency bond markets.

This significant step also served as a strong endorsement for CGIF's operational capability, despite running for just less than five years. Crucially, the participation of established commercial institutions in ASEAN local currency bonds is an important first move in making these bonds a viable asset class, which is one of the cornerstones of CGIF's establishment.

LOOKING FORWARD

Amidst an uncertain and volatile period of capital flows within the region and globally, ASEAN countries are expected to continue their growth trajectory, albeit at a slower pace. Bond market development will continue to be an important aspect in discovering new frontiers in each of the respective markets within CGIF's mandate. New ground includes infrastructure project bonds in many of the ASEAN countries to catalyze the financing of much needed infrastructure in long-

term local currency bonds. Another fundamental factor is the revival of securitization— a technique that's vital to channel funding of key asset classes from the banking sector to the bond markets. While still at preliminary stages, CGIF is working towards the inaugural issuances in countries which still don't have functioning bond markets, which will set the stage for the emergence of a local bond market in these frontier countries in years to come.

RAISING MARKET AWARENESS

In 2016, CGIF organized an Investors' Forum in May in Cambodia, supported by the Ministry of Economy and Finance of Kingdom of Cambodia. This event was used as an opportunity not only to raise market awareness about CGIF's activities, but also to discuss challenges and opportunities in bond market development, including the role of CGIF as a key component in the regional cooperation initiative known as the Asian Bond Market Initiative (ABMI).

CGIF also organized seminars to introduce business opportunities in ASEAN local currency bond markets to corporates and investors in plus 3 countries. The seminar in Seoul, Korea in April 2016 was held in collaboration with the Korea Exchange, while the one in Tokyo, Japan in June 2016 was with JBIC, ADB and Japan Institute Overseas Investment.

In addition, CGIF representatives also participated as speakers, participants, and panelists in several conferences, forums, and roundtable series on capital markets. Notable examples include the 2016 events in Singapore by ASIFMA, which are ASIFMA Structured Finance Conference and ASIFMA's Tenth Annual Conference, held on 29 September 2016 and 17-18 November 2016 respectively, and The Asset's eleventh Asian Bond Markets Summit, which took place on 15 November 2016, wherein CGIF played a key role as panelist.

CGIF also cosponsored and participated in Asiamoney's roundtable discussions on bond

market development in Kuala Lumpur, Malaysia (April), Jakarta, Indonesia (May) and Bangkok, Thailand (August), as well as PFI's roundtable discussion on project bonds in Singapore

(October). Records of these discussions were published by respective magazines, contributing to increasing interests on these subjects and information sharing among market players.

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 are added in the job list of the Financial Control Department (FCD). The FCD is supporting 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; preparation of regular financial reports including the Monthly Management Report, quarterly & annual financial reports, and coordination with the external auditor for the exercise of annual audit.

While it still relies on the treasury department of the Asian Development Bank 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.

COST ALLOCATION EXERCISES AND OTHER ANALYSIS

In 2016, we conducted a cost allocation exercise. A cost allocation exercise is performed to identify direct and indirect costs, as well as to assign such costs to each profit generating activity. The objective is for CGIF to be able to estimate costs that contribute

to specific profits. The exercise also helps CGIF to optimize utilization of resources, as well as motivate the organization to be mindful of costs. Based on the actual total expenses for the Financial Year 2015, 74.3% of total annual expenses were estimated to have contributed to guarantee operation, while an estimated 25.7% have contributed to investments. These results served as the basis for calculation of commission to be paid by the reinsurer for the compensation of operational and administrative costs of CGIF in the reinsurance treaty.

In relation to the proposal of Capital Increase, FCD analyzed possible issues that may arise upon local currency capital contribution. Possible issues may be related to foreign exchange (FX) risk management, portfolio management of local currency investments, instrument types of contribution (equity or debt), calculation of prudential limits, and various relevant accounting implications. The results of the analysis were reported to the Board of Directors at the second board meeting in Bali, Indonesia in August 2016.

CAPACITY BUILDING

CGIF is expected to get more actively involved in derivatives transactions going forward. Currently, FX forwards, deliverable and non-deliverable, are the only derivatives traded by CGIF. However, before the involvement of CGIF in various derivative products progress, it may be desirable for the FCD staff to become familiar with potential derivative products. CGIF invited an accounting firm to hold a training session in derivatives. In this introductory training of capital market derivative products,

various departments attended such as Treasury, Risk Management, Legal, Internal Audit, Corporate Planning, and Financial Control. In the training, hedge accounting, which will be covered by new accounting standards (IFRS 9) starting 2018, was also discussed. It was explained that the new accounting standards would introduce significant improvements in accounting treatment of hedge principally by aligning accounting more closely with risk management, and allowing a more flexible approach to hedge transactions and their booking.

PREPARATION FOR NEW ACCOUNTING STANDARDS: IFRS 9

The International Accounting standards Board (IASB) made public the final version of IFRS 9. The IFRS 9 financial instruments covers requirements for 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 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 is building its own model for the expected credit loss in consultation with the external auditor. Moving forward, CGIF may keep working on the enhancement of the model throughout 2017, in line with its Internal Risk Rating (IRR) system enhancement exercise.

Management reports the developments to the Board at each board meeting, in the preparation for the adoption of IFRS 9.

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 provide 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 2. The table also shows the transition of the allocation during the past two years. It is clearly presented that the assets allocation of investment portfolio and duration are improved in line with the SAA in past years.

EVOLUTION OF THE INVESTMENT PORTFOLIO

Migration to the SAA target portfolio was achieved gradually and will continue to be pursued in 2017 and the following years, in consideration of

TABLE 2: 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-2014	3%	0%	70%	27%	1.50
31-Dec-2015	17%	0%	61%	32%	1.77
31-Dec-2016	12%	15%	43%	29%	2.58

*Where, UST means US Treasuries. AAA & AA means a combination of AAA and AA rated bonds with targeted duration 3~4 years. A-1 means A-1 rated bonds with 1 year of maximum tenor. Portfolio duration means average effective duration of the investment portfolio.

market condition. With the implementation of the SAA, the investment portfolio is successfully equipped with higher credit quality, and thus, improved liquidity condition. It also generates stable income from extended-duration portfolio. Figures 11, 12, 13, and 14 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.

FX regulations that govern financial activities in each jurisdiction of the immediate target markets of CGIF. CGIF will further extend the exercise to the economies of BCLM countries. So far, CGIF is involved in FX hedge transactions in the currencies of PHP, SGD, and VND. Specific hedge strategy is reviewed and enhanced based on knowledge and experience learned. Management decided to reduce VND hedge ratio based on hedge cost, market developments, local regulations, and past volatility of the currency.

INVESTMENT INCOME IN 2016

Realized interest income on investments for 2016 was US\$ 10.4 million, representing a yield of 1.46% without the effect of change in fair value. The yield in 2015 was 1.30%, and the original target of 2016 was 1.25%. Table 3 provides a quarterly breakdown for investment income for the year 2016, as well as annual income of 2015 and 2016. ADB suggested a target yield for 2017 at 1.30% in consideration of conservative investment strategy under expectation of volatile markets.

FX HEDGE TRANSACTIONS

CGIF actively gets involved in FX transactions for hedge against FX exposure. Under the agreement between CGIF and ADB, these external transactions may be executed by CGIF initially, and then processed and settled by ADB. For the FX transactions, CGIF analyzed and confirmed local

COUNTERPARTY RELATIONSHIP

In order to increase the scope of possible counterparties for external transactions, and enhance its hedging capabilities, CGIF has continued its efforts in establishing relationships with potential counterparties with negotiations for the documents these relationships require. CGIF 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. These multiple relationships help CGIF execute hedge transactions more competitively and efficiently. While it can enter into FX hedge transactions for any exposure against its target currencies with the existing relationship, CGIF continued to expand its counterparty relationship with major local names in the target local markets to improve the efficiency of hedge transactions further.

ASEAN BOND MARKET RESEARCH

Research on CGIF's target bond markets is still limited, and most data on these markets are not readily available. CGIF Treasury has undertaken its own research on the ASEAN corporate bond market. This research is carried out through field

trips to the markets and interviews with local experts, as well as desktop study based on the collectible data. It is expected to enhance CGIF's understanding of its target markets. Additionally, CGIF expects that such research will be helpful in properly setting its operational strategy for each target market in pursuit of its mandate.

FIGURE 11: EVOLUTION OF INVESTMENT PORTFOLIO I

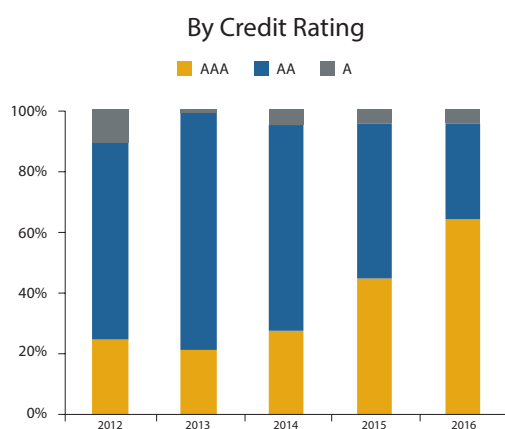


FIGURE 12: EVOLUTION OF INVESTMENT PORTFOLIO II

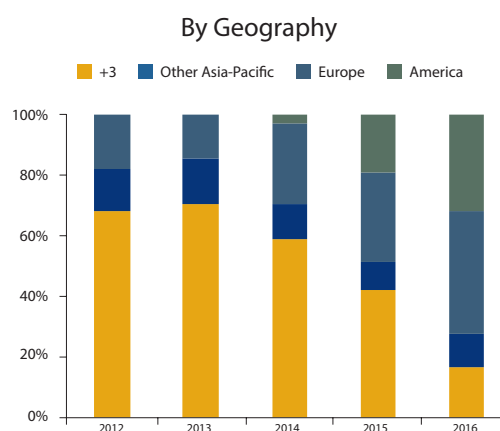


FIGURE 13: EVOLUTION OF INVESTMENT PORTFOLIO III

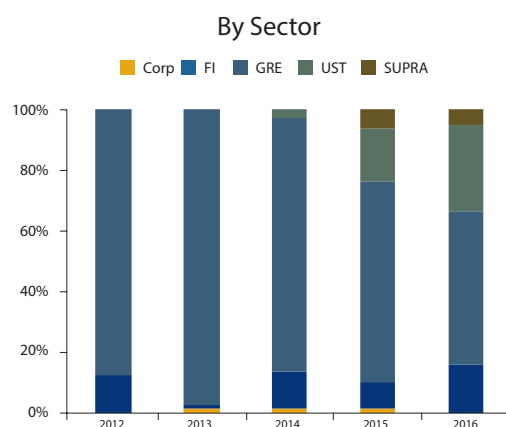


FIGURE 14: EVOLUTION OF INVESTMENT PORTFOLIO IV

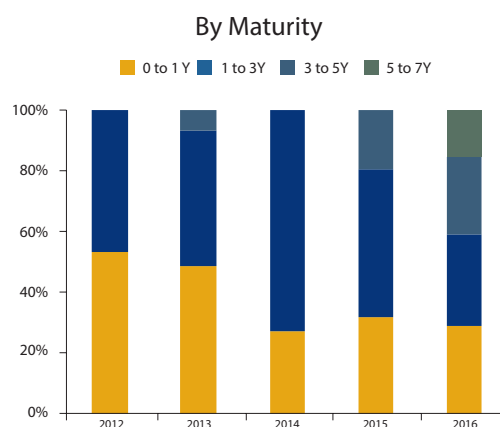


TABLE 3: 2015-2016 INVESTMENT INCOME

INVESTMENT INCOME (IN \$000)	2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	2016
DEBT SECURITIES	9,267	2,289	2,446	2,700	3,030	10,463
TIME DEPOSITS	98	73	41	10	10	133
TOTAL	9,365	2,362	2,487	2,710	3,040	10,596

STAFFING AND ORGANIZATION STRUCTURE

CGIF's approved staff number for 2016 is a complement of thirty-five staff members, excluding secondees. The updated staff complement by category as of end of December 2016 is provided in Table 4.

TABLE 4: STAFF RESOURCES BY CATEGORY

STAFF CATEGORY	HEAD COUNT
EXECUTIVE STAFF	7
PROFESSIONAL STAFF	6
NATIONAL/ADMINISTRATIVE STAFF	22
TOTAL	35

By the end of 2016, a total of thirty-five positions had been filled, compared to the thirty-three filled positions in 2015. During 2016, one administrative staff member resigned and left CGIF, while a professional staff member joined the Risk Management Department and two administrative staff members joined the Deal Operations Department.

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

INSTITUTIONAL INFRASTRUCTURE

The development of 2016's institutional infrastructure centered on the following key areas:

- Enhancing risk assessment capabilities of CGIF** in various industries. CGIF invested a total of \$370,000 (80% of its capital expenditure budget) in acquiring bank and utility scorecards and in updating project finance and generic corporate scorecards from S&P Capital IQ. Staff members were also trained in the usage of these scorecards.
- Establishment of reinsurance function.** Given the inception of the reinsurance treaty in 2016, CGIF established the Analytical Support and Monitoring Unit to manage CGIF's reinsurance program. This includes the regular reporting requirements CGIF must perform under the treaty and management of CGIF's ongoing relationships with the reinsurance broker and reinsurers.
- Corporate rebranding.** CGIF launched its new visual identity guidelines and materials during 2016. This was an effort to further improve its corporate brand and to maintain a consistent and unified image to external stakeholders.
- Website and Content Management System refresh.** In line with the CGIF's new visual identity, CGIF also refreshed its website and Content Management System to achieve a new and uniform identity.

BUDGET

Budget utilization for 2016 amounted to \$6.95 million. This represents a utilization of 75%, excluding contingencies of the budget of \$9.22 million. The Board, on its November 2016 meeting, approved the 2017 budget of \$9.40 million (before

contingency), committing the necessary resources to support the 2017 Work Program.

This reflects a modest increase of \$0.19 million or 2.0% over the 2016 budget.

FINANCIAL HIGHLIGHTS

In 2016, CGIF recorded a net income of \$10.1 million, which is \$2.3 million or 29.6% higher than the previous year. This increase was achieved through a \$4.1 million increase in total revenues but was partly off set by the \$1.8 million or 28.1% increase in total expenses. Of the total revenue of \$18.5 million, \$10.4 million was contributed from investment income and \$8.0 million from guarantee income. Growth of guarantee income by 68.0% or \$3.3 million was backed by five accounts that were completed in 2016. Investment income also contributed in the growth of gross revenue, which had a 9.9% increase – from \$9.4 million to \$10.4 million.

Outstanding guarantee issued as of the end of 2016 increased to \$1,120.5 million or by 49.6% from \$748.9 million in 2015. Recognized guarantee fee receivables and guarantee liability recorded \$38.6 million and \$41.8 million, which mark increases of 51.0% and 50.2% from 2015, respectively.

Total Member's Equity increased to \$727.5 million in 2016, 0.7% increase from last year's \$722.6 million. Retained Earnings for 2016 was \$10.1 million. CGIF's Reserve, which is the accumulation of allocated retained earnings since its establishment, stood at \$24.7 million.

FIGURE 15: REVENUE VS. EXPENSES

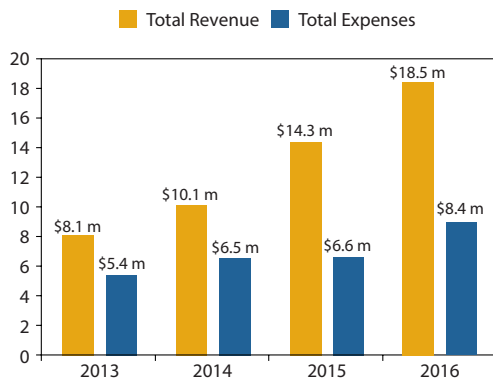


FIGURE 16: EXPENSES COMPOSITION

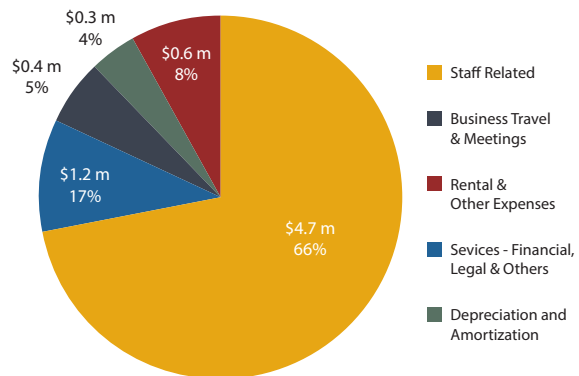


FIGURE 17: GUARANTEE LIABILITY

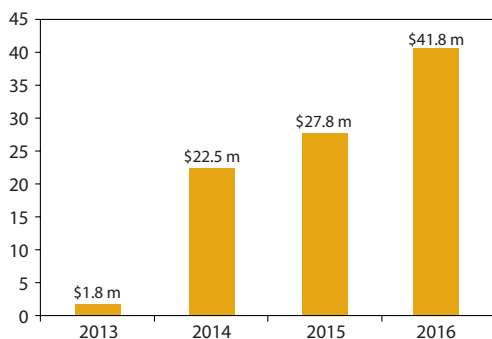
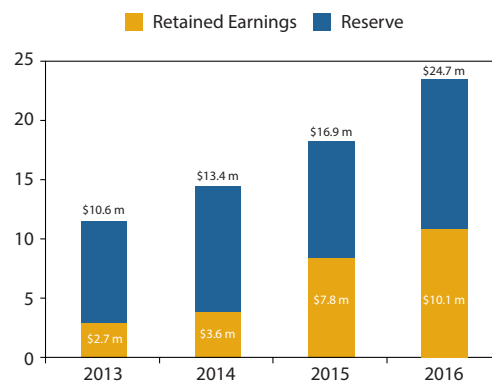
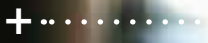


FIGURE 18: RETAINED EARNINGS AND RESERVE





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. Fumihiko Yamada
Director
Promotion of Regional Financial Cooperation
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. Toshiaki Kitajima

Director of Division 1
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 sixteen 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 twenty- 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.



TongSop (Tim) Song

Chief Financial Officer

Mr. TongSop Song has had over twenty years of extensive experience in the capital markets with primary focus on trading fixed income, asset and liability management, and risk management. Before joining CGIF, he was the president of Stonewall Investments, a hedge fund. He also held various lead positions in SK Securities, Credit Agricole CIB (formerly Calyon), BNPP and HSBC, in Seoul. Mr. Song was the Chairman of the Korean Primary Dealers Association in 2010.

Mr. Song attended Seoul National University for his Bachelor of Arts in Economics and the Graduate School of Yonsei University for his Master of Arts in Economics.



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 twenty 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).



◎ OUR PEOPLE

Our people come from diverse cultural, educational and professional backgrounds representative of the ASEAN+3, and this diversity bears a critical component—a convergence of unique skills and talents, which acts as a catalyst in CGIF’s ultimate mission to promote economic development in the region.

Guided by our Core Competencies, we aim to fulfill this mission through efficiency and collaborative problem solving. This is something we achieve through our commitment and investment in the development of our human capital.





GOVERNANCE

GOVERNANCE

7 April 2016

Mr. Tsutomu Sato, Deputy Director General 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. Toshiaki Kitajima, Director of Division 1, New Energy and Power Finance Department II, Infrastructure and Environment Finance Group, to serve as new Director of CGIF.

25 May 2016

Ms. Junhong Chang, Deputy Director General of the International Economic Relations Department of the Ministry of Finance, People's Republic of China, resigned as Director of CGIF. In her place, the People's Republic of China nominated Ms. Hongxia Li, Deputy Director General, International Economic Relations Department of the Ministry of Finance, People's Republic of China, to serve as new Director of CGIF.

18 July 2016

Ms. Christine Engstrom, Director, Financial Institutions Division, Private Sector Operations Department of the Asian Development Bank (ADB), resigned as Director of CGIF. In her place, ADB nominated Mr. Stefan Hruschka, Principal Investment Specialist, Private Sector Portfolio Management Division of the ADB, to serve as new Director of CGIF.

26 September 2016

Mr. Jung Chang-ho, Director General of Information Systems Department of The Export-Import Bank of Korea (Korea Eximbank), resigned as Director of CGIF. In his place, the Republic of Korea nominated Mr. Jun Sun-joon, Director General of Financial Investment Department in Korea Eximbank, to serve as new Director of CGIF.

22 November 2016

Mr. Robert Pakpahan, Director General of Budget Financing and Risk Management, Ministry of Finance of the Republic of Indonesia, resigned as Director of the Board representing ASEAN. In his place, ASEAN nominated Dato' Siti Zauyah Md Desa, Deputy Secretary General (Policy) of Ministry of Finance of Malaysia, to serve as new Director of CGIF.



MEETING OF CONTRIBUTORS (MOC)

The Annual Meeting of Contributors (MOC) for 2016 was held on 31 May 2016 in Phnom Penh, Cambodia.

During the Annual MOC for 2016, the Contributors considered and approved the following recommendations of the Board:

1. The minutes of the last MOC held on 27 May 2015 in Bandar Seri Begawan, Brunei Darussalam
2. The Annual Report for 2015 including the Audited Financial Statements
3. The allocation of the entire net income for 2015 of \$7,780,982.96 in Retained Earnings to Reserve
4. The amendment to the definition of JBIC in Schedule 3 of CGIF's Articles of Agreement in view of JBIC's separation from Japan Finance Cooperation in April 2012

BOARD OF DIRECTORS (BOARD)

In 2016, the Board held a total of three meetings: one meeting in Seoul, Korea, one meeting in Bali, Indonesia, and one meeting in Tagaytay City, Philippines. 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 2016 are summarized below:

19-20 April 2016 (Seoul, Korea)

1. Approval of the Annual Report for 2015, which includes the Audited Financial Statements for the year ended 31 December 2015, for sending to the MOC for its review and final approval
2. Approval and recommendation to the MOC of the proposal for the allocation of the entire earning in 2015 of \$7,780,982.96 in Retained Earnings to Reserve, subject to the approval of the Audited Financial Statements for 2015 by the MOC
3. Approval of the extension of appointment of Ms. Jackie Bang as CGIF's Internal Auditor
4. Approval of the proposed amendment to the definition of "Japan Bank for International Cooperation" (JBIC) in Schedule 3 of the Articles of Agreement (AoA), subject to the final approval of the MOC during the Annual MOC of 2016

2-3 August 2016 (Bali, Indonesia)

1. Approval of the Credit Risk Mitigation (CRM) Guidelines

22-23 November 2016 (Tagaytay City, Philippines)

1. Approval of the 2017 Business Plan, the 2017 Work Programs, the 2017 Key Performance Benchmarks, and the 2017 Budget, consisting of an Operational and Administrative Expenditure Budget of \$9.86 million and a Capital Expenditure Budget amounting to \$124,000.00
2. Approval of the Revision of the Treasury Guidelines

In 2016, through electronic means, the Board also deliberated and approved key guarantee-related items as follows:

1. Approval of the Guarantee Underwriting Proposal (GUP) for Trina Solar (Singapore) Science & Technology Pte. Ltd. on 25 March 2016
2. Approval of the Revised GUP for Fullerton Healthcare Corporation Limited on 26 April 2016
3. Approval of the GUP for KNM Group Berhad on 28 June 2016
4. Approval of the GUP for ASA Philippines Foundation, Inc. on 11 November 2016
5. Approval under certain conditions of the GUP for Sapura Kencana Petroleum Berhad on 16 December 2016



AUDIT COMMITTEE (AC)

The Audit Committee assists the Board in fulfilling its corporate governance and oversight responsibilities particularly on financial reporting, and on internal and external audit functions. The Audit Committee ensures the integrity of financial reporting, effectiveness of audit mechanisms, efficient use of resources, compliance with regulations and business procedures, and effective dialogue among the Board, management, and auditors. Also, Audit Committee assures that a culture and practice of effective oversight and ethical standards are fostered within CGIF.

The Audit Committee performs a critical role in assuring the integrity of CGIF's financial reporting and of its internal control environment, and ensures that any gaps in the internal control processes are corrected. Given the importance of the Audit Committee in the Board's supervisory function and in enhancing accountability to the Contributors, its work is communicated to the Contributors by stipulating the committee's roles, the qualifications of its members, the number of its meetings, the report of its findings, and the discharge of its responsibilities.

The Audit Committee is composed of three members consisting of directors representing the Association of Southeast Asian Nations (ASEAN), People's Republic of China, and the Republic of Korea, with the ASEAN director as Chairman. The Chairman and members are all appointed by the Board.

The Audit Committee reviews the effectiveness of audit functions and raise to the Board any cause for concern or scope for improvement. Where there is disagreement between the Audit Committee

and the Board, which cannot be resolved within a reasonable time, the Audit Committee has the right to report the issue to the Meeting of the 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 Board.

Audit Committee activities for the calendar year 2016:

The Audit Committee convened four times in 2016—with three physical meetings (on 19 April, 2 August, and 22 November) and one via email (on 1 July). The Audit Committee discharged its independent oversight function during its periodic meetings through deliberations, which were reported to the Board by the Chairman, and were considered and unanimously adopted by the Board.

FINANCIAL REPORTING

The Audit Committee reviewed and approved significant financial reporting matters that were made in the preparation of financial statements and disclosures by the CGIF Management. These included the review of the accounting and reporting policies adopted by CGIF, the significant estimates and judgments that were made, and the clarity and completeness of disclosures, in accordance with international financial reporting standards, and taking into account the view of the external auditor.

CGIF's 2015 audited financial statements were reviewed and approved by the Audit Committee in its first meeting held on 19 April 2016. The external auditor, Deloitte & Touche, physically participated in the meeting with the Audit Committee without CGIF Management in attendance, responded to the questions from Audit Committee, and discussed any issue arising from the audit. The Audit Committee also reviewed the 2016 quarterly financial statements and noted the preparation for the adoption of IFRS 9 reported by the Chief Financial Officer.

AUDIT MECHANISM

External Audit

The external auditor, Deloitte & Touche, was selected by the Contributors as recommended by the Board and the Audit Committee, for a term of five fiscal years from 2014 to 2018. The Audit Committee has oversight on the work of the external auditor and is responsible for making recommendations to the Board and the Contributors on its appointment, reappointment, and removal.

The Audit Committee reviewed and approved the engagement terms and audit fees given to the external auditor, which included the review of the scope of work and the appropriateness of the audit fee, in respect to the audit services provided. The 2016 audit fees was reviewed and approved by the Audit Committee and the Board, which increased by 12% considering the increase in guarantee deals and derivatives transactions. There were no changes on the engagement terms since 2014.

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 it is equipped to perform in accordance with appropriate professional standards.

The Audit Committee reviewed the results of the internal auditor's work through the audit reports and the quarterly audit update reports for 2016. The audit report includes findings and recommendations for high and medium-risk observations, with the corresponding corrective action plans.

The Audit Committee reviews and monitors the management's responsiveness to the internal auditor's findings and recommendations through the corrective action plans. The corrective action plans are monitored and validated by the internal auditor and are reported to the Audit Committee and the Board through the quarterly audit update and the quarterly management report, respectively.

During the year, the Director representing the ASEAN, who is also the Chairman, was changed from Indonesia to Malaysia. CGIF has conducted training for the new Chairman. A separate meeting was held between the internal auditor and the new Chairman of the Audit Committee without CGIF Management presence to discuss the audit activities for the last three years.

In its third physical meeting in November 2016, the Audit Committee reviewed and approved the internal audit plan for 2017. In addition, a separate meeting between the internal auditor and new AC Chairman was conducted without CGIF Management attendance to discuss issues that arose from the audit. 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.



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 the managerial and operational level.

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.

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 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 Deal Operations Department (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 Guarantee and Investment Committee (GIC) before they advise an issuer to formally apply for a guarantee. It will submit a Guarantee Concept Paper (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 due diligence review before a guarantee underwriting proposal is submitted to the GIC for the latter's endorsement for Board approval. Part of the due diligence review is an on-site visit on 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 Risk Management Department reviews all GCPs and Guarantee Underwriting Papers (GUPs) submitted for deliberation by, and approval of, the GIC.

CGIF has entered into a quota share reinsurance treaty with a consortium led by Munich Re effective 1 October 2016. Under the reinsurance treaty, 25% CGIF's outstanding guarantees as of 1 October 2016 and new guarantees issued from then to end-2017 will be ceded to the consortium. For guaranteed bonds with long tenors, special approvals may be required from the consortium for inclusion in the treaty.

INVESTMENT BOOK MARKET RISK AND CREDIT RISK MANAGEMENT

CGIF's capital resources are managed by ADB, as Trustee, following the guidelines in CGIF's OP, Investment Guidelines and Treasury Guidelines,

and in the 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 2016, CGIF capital resources were invested in US dollar-denominated fixed income securities and in bank placements. Investments in fixed income securities are carried as available-for-sale (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 value-at-risk 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 five years.

CGIF's investments, pursuant to OP 220, should be given at least an AA- rating by international credit rating agencies for securities with more than one year term to maturity, and at least A-1 for securities with equal to or less than one year term to maturity.

LIQUIDITY RISK MANAGEMENT

CGIF is liquid insofar that 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 three months. This exercise is conducted quarterly. In 2016, all projected monthly cumulative liquidity gaps have been observed to be positive.

FOREIGN EXCHANGE RISK MANAGEMENT

CGIF shall provide foreign exchange hedges (to the extent possible) to cover foreign exchange exposures such as guarantee fees paid in a local currency and amortized over a period of time. Foreign exchange risk refers to the event that CGIF is not able to maintain the dollar value of the guarantee fees, had these been paid in full on issuance date. CGIF measures its aggregate foreign exchange risk exposure regularly.

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 that includes guidelines for annual Risk and Control Self-Assessment (RCSA).

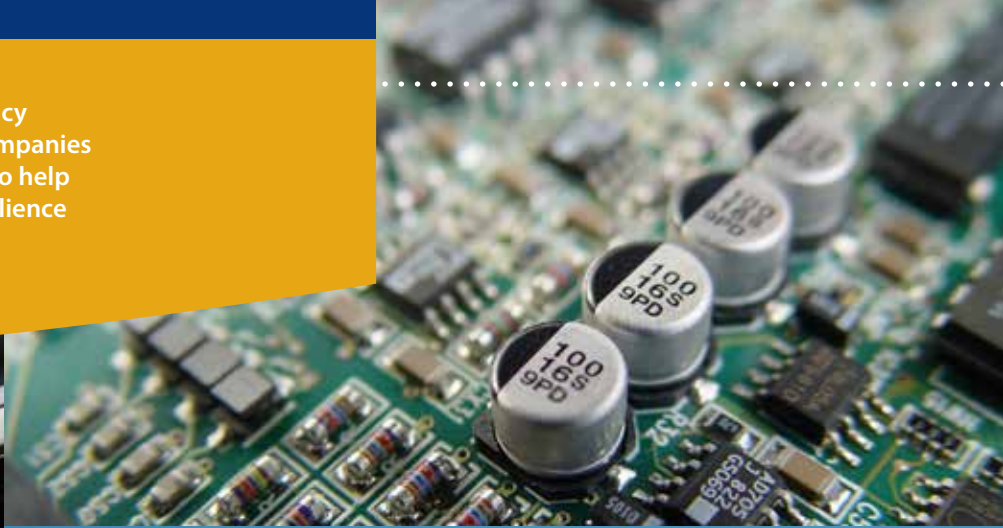
COMPLIANCE RISK

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)

The 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 NRC is responsible for overseeing the remunerations, pensions, and the other compensations 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 one meeting on 22 November 2016 in Tagaytay City, Philippines. The committee noted the three reporting items namely: the progress on the selection of new Chief Financial Officer, Benefits Review, and Salary Adjustment for 2017.



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 2016 AND 2015**

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

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF CREDIT GUARANTEE AND INVESTMENT FACILITY

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte & Touche 

Public Accountants and
Chartered Accountants
Singapore

17 April 2017

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1—GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

Key requirements of IFRS 9:

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

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

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

Classification and measurement

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

Impairment

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

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

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

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

NOTE 3—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

Cash

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

Financial Instruments

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

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

Financial Assets

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

Effective Interest Method

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

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

Loans and Receivables

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

Investments

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

Derivative Financial Instruments

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

Impairment of Financial Assets

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

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

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

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

Derecognition of Financial Assets

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

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

Guarantee Fee Receivable

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

Guarantee Liability

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

Revenue Recognition for Guarantee Fee

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

Furniture, Fixtures and Equipment

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

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

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

The estimated useful lives by asset class are as follows:

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

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

Intangible Assets

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

Impairment of Tangible and Intangible Assets

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

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

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

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

Offsetting Arrangements

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

Subscribed Capital

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

Segment Reporting

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

Fair Value of Financial Instruments

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

Functional and Presentation Currency

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

Translation of Currencies

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

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

Critical Accounting Estimates and Judgment

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

NOTE 4—RISK MANAGEMENT

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

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

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

Categories of Financial Instruments

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

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

Credit Risk

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

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

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

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

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

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

Market Risk

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

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

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

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

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

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

Counterparty Risks

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

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

Liquidity Risk

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

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

	31 December 2016					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 held for trading	219	238	8	-	-	465
Loans and receivables	10,190	1,772	6,874	24,105	9,638	52,579
Total financial assets	10,409	2,010	206,838	430,005	121,796	771,058
Financial liabilities						
Derivative liabilities held for trading	-	33	66	466	-	565
Financial liabilities at amortized cost	111	840	815	179	-	1,945
Total financial liabilities	111	873	881	645	-	2,510
Total maturity gap	10,298	1,137	205,957	429,360	121,796	768,548

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

Capital Resources

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

Capital Adequacy

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

Operating Risk

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

NOTE 5—INVESTMENTS

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

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

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

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

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

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

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

Fair Value Disclosure

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

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

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

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

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

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

	<u>2016</u>	<u>2015</u>
Time Deposits	1	-
AFS Investments	<u>3,323</u>	<u>3,430</u>
TOTAL	<u><u>3,324</u></u>	<u><u>3,430</u></u>

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

NOTE 7 – GUARANTEES

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

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

	31 December 2016			USD Equivalent of Total Obligation
	Local Currency		Total Obligation	
	Principal	Coupon		
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>

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

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

terms of the guarantee.

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

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

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

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

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

NOTE 8—FURNITURE, FIXTURES AND EQUIPMENT - NET

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

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

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

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

NOTE 9—INTANGIBLE ASSETS

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

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

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

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

NOTE 12—RELATED PARTY TRANSACTIONS

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

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

NOTE 13—MEMBERS' EQUITY

CGIF did not receive any additional subscription in 2016.

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

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

NOTE 14— RESERVE

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

NOTE 15— INTEREST INCOME

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

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

NOTE 16— MISCELLANEOUS INCOME

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

NOTE 17— ADMINISTRATIVE AND OPERATIONAL EXPENSE

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

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

NOTE 18— REINSURANCE

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

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

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