



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

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
31 DECEMBER 2014 AND 2013**

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

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF CREDIT GUARANTEE AND INVESTMENT FACILITY

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

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

Opinion

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



Public Accountants and
Chartered Accountants

Singapore
21 April 2015



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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1—GENERAL INFORMATION

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

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

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

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

Level 1: fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities
Level 2: fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3: fair values are based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

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

Cash

Cash represents cash or deposit in an interest bearing money account.

Financial Instruments

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

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

Financial Assets

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

Effective Interest Method

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

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

Investments

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

Guarantee Fee Receivable

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

Guarantee Liability

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

Impairment of Financial Assets

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

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

Derecognition of Financial Assets

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

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

Furniture, Fixtures and Equipment

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

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

The estimated useful lives by category are as follows:

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

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

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Furniture - Imported	10 years
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Other Office Equipment	4 years
IT and Communication	
Computer, Server, Network, Others	4 years
Communication	7 years
Building Improvement	Over the lease period

Intangible Assets

Intangible assets are composed of acquired information system software licenses that are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These are amortized over a period of 4 years.

Subscribed Capital

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

Segment Reporting

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

Fair Value of Financial Instruments

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

Functional and Presentation Currency

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

Translation of Currencies

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

Accounting and Reporting Developments

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

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

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

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

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

In May 2014, IASB issued Amendments to IAS 16 *Property, Plant and Equipment* to clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. IASB also issued Amendments to IAS 38 *Intangible Assets* to introduce a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate. The amendments to both standards are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. Both amendments are not expected to have any impact on CGIF's financial statements.

Critical Accounting Estimates and Judgment

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires exercising judgment in the process of applying the CGIF's accounting policies and determining the fair value of financial instruments. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are included in Notes 4 and 5. Since the estimates are based on judgment and available information, actual results may differ and might have a material impact on the financial statement.

NOTE 3—RISK MANAGEMENT

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

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

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

Categories of Financial Instruments

Categories of financial instruments as of 31 December 2014 and 2013 are as follows (in \$'000):

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

Credit Risk

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

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

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

Market Risk

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

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

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

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

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

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

Counterparty Risks

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

Liquidity Risk

Liquidity risk can arise if CGIF is unable to provide funds to meet its financial and operational commitments. CGIF maintains adequate liquidity resources to meet the cash requirements and potential calls on the guarantees issued. CGIF assesses and monitors the availability of its liquid assets on a quarterly basis. CGIF conducts quarterly tests of its liquidity under stress scenarios where CGIF has to meet lumpy obligations related to claims on guarantees, and raise funds from various sources. The liquidity stress test in consideration of CGIF’s guarantee portfolio as of 31 December 2014 and 2013 indicates that CGIF can generate the liquidity that that will be required to meet its payment obligations in the event of guarantee claims on CGIF.

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

	31 December 2014					TOTAL
	Less than 1 month	1 to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	
Financial assets						
Cash and Bank						
Balances	\$ 1,905					\$ 1,905
AFS	60,506	25,100	107,344	519,906	-	712,856
Guarantee Fee and Other Receivables	203	458	3,173	9,370	7,748	20,952
Total financial assets	\$ 62,614	\$ 25,558	\$ 110,517	\$ 529,276	\$ 7,748	\$ 735,713
Financial liabilities						
Accounts Payable and Accrued Expenses	\$ 120	\$ 263	\$ 285	\$ 109		\$ 777
Total financial liabilities	\$ 120	\$ 263	\$ 285	\$ 109	\$ -	\$ 777
Total maturity gap	\$ 62,494	\$ 25,295	\$ 110,232	\$ 529,167	\$ 7,748	\$ 734,936

	31 December 2013					TOTAL
	Less than 1 month	1 to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	
Financial assets						
Cash and Bank						
Balances	\$ 3,053					\$ 3,053
AFS	8,001	49,992	286,330	365,051		709,374
Guarantee Fee and Other Receivables	62	348	436	546		1,392
Total financial assets	\$ 11,116	\$ 50,340	\$ 286,766	\$ 365,597	\$ -	\$ 713,819
Financial liabilities						
Accounts Payable and Accrued Expenses	\$ 84	\$ 63	\$ 13	\$ 112		\$ 272
Total financial liabilities	\$ 84	\$ 63	\$ 13	\$ 112	\$ -	\$ 272
Total maturity gap	\$ 11,032	\$ 50,277	\$ 286,753	\$ 365,485	\$ -	\$ 713,547

Capital Resources

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

Operating Risk

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

NOTE 4—INVESTMENTS

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

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

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

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

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

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

Fair Value Disclosure

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

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

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

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

ADB as CGIF's Trustee manages CGIF's investments in liquid assets which are governed by the CGIF Operational Policies and Investment Guidelines approved by the CGIF Board of Directors, and follows the same process and internal controls to value the investment securities as ADB's portfolio. The data management unit in ADB's treasury department is responsible for providing the valuation in accordance with the business process. In instances where ADB relies primarily on prices from third party pricing information, there are procedures in place to validate the appropriateness of those values in determining

the hierarchy levels. This involves evaluating the nature of prices provided by third party pricing sources to determine if they are indicative or binding prices.

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

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

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

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

\$ 24	\$ -
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Accrued interest income from investments is further detailed as follows (in \$'000):

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

NOTE 5 – GUARANTEES

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

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

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

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

As of 31 December 2014, a guarantee liability of \$22.5 million (\$1.8 million - 31 December 2013) was reported on the Statement of Financial Position representing the unamortized balance of sum of the received guarantee fees and the present value of total guarantee fees expected to be received under the terms of the guarantee.

The reported guarantee fee receivable of \$20.7 million represents the present value of the stream of total guarantee fees expected to be received for the guarantee outstanding as of 31 December 2014 (\$1.2 million – 31 December 2013).

NOTE 6—FURNITURE, FIXTURES AND EQUIPMENT - NET

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

	Office Furniture and Equipment	IT and Communications	Building Improvement	Work in Progress	TOTAL
Cost					
1 January 2013	\$ 25	\$ 77	\$ 278	\$ 66	\$ 446
Additions	100	72		305	477
Disposals				(1)	(1)
Transfers	53		70	(123)	-
Reclassification					-
31 December 2013	\$ 178	\$ 149	\$ 348	\$ 247	\$ 922
Additions	3	4		1	8
Disposals					-
Transfers					
Reclassification				(242)	(242)
31 December 2014	\$ 181	\$ 153	\$ 348	\$ 6	\$ 688

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

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

NOTE 7—INTANGIBLE ASSETS

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

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

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

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

NOTE 8—OTHER ASSETS

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

NOTE 9—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

NOTE 10—RELATED PARTY TRANSACTIONS

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

Other liabilities and other miscellaneous expenses both amounting to \$0.70 million pertain to the provision for ADB's administration fee which is equivalent to 10 bps of contributions received as of 31 December 2014. The amount of \$0.70 million pertaining to ADB's administration fee for 2013 was settled subsequently in April 2014.

NOTE 11—MEMBERS' EQUITY

CGIF did not receive any additional subscription in 2014.

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

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

NOTE 12— RESERVE

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

NOTE 13— INTEREST INCOME

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

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

NOTE 14— ADMINISTRATIVE AND OPERATIONAL EXPENSE

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

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