4. Financial Statements of the Guarantor

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

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

INDPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF CREDIT GUARANTEE AND INVESTMENT FACILITY

Opinion

We have audited the financial statements of Credit Guarantee and Investment Facility (the "Company"), which comprise the statement of financial position as at December 31, 2019 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, 2019, 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 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.

Deloitte.

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 LLP

Public Accountants and
Chartered Accountants
Singapore

April 14, 2020

CREDIT GUARANTEE AND INVESTMENT FACILITY
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
Expressed in Thousands of United States Dollars

	NOTES	2019	2018
ASSETS			
CASH		3,740	7,041
INVESTMENTS	5	1,176,212	904,555
ACCRUED INTEREST INCOME	5	7,192	5,124
GUARANTEE FEE RECEIVABLE, NET	6	65,647	39,944
RIGHT OF USE – LEASE ASSET, NET	7	172	-
FURNITURE, FIXTURES AND EQUIPMENT, NET	8	217	163
INTANGIBLE ASSETS, NET	9	30	156
OTHER ASSETS	10	1,857	773
TOTAL ASSETS		**1,255,067**	**957,756**
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES			
GUARANTEE LIABILITY	6	73,204	44,358
UNEARNED INTEREST INCOME – GUARANTEES		548	402
LEASE LIABILITY	7	167	-
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	11	1,745	1,165
OTHER LIABILITIES	12	971	839
TOTAL LIABILITIES		**76,635**	**46,764**
MEMBERS' EQUITY			
CAPITAL STOCK			
PAID-IN CAPITAL	13	1,077,600	859,200
RETAINED EARNINGS		23,162	16,718
RESERVE	14	62,333	45,615
ACCUMULATED OTHER COMPREHENSIVE INCOME			
INVESTMENT REVALUATION RESERVE	5	15,337	(10,541)
TOTAL MEMBERS' EQUITY		**1,178,432**	**910,992**
TOTAL LIABILITIES AND MEMBERS' EQUITY		**1,255,067**	**957,756**

CREDIT GUARANTEE AND INVESTMENT FACILITY
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)
STATEMENT OF NET INCOME
For the year ended 31 December 2019
Expressed in Thousands of United States Dollars

	NOTES	2019	2018
REVENUE			
GUARANTEE FEES		12,947	8,735
INTEREST INCOME	15	26,177	19,742
REALIZED GAIN FROM SECURITIES		14	4
COMMISSION - REINSURANCE	18	2,104	698
MISCELLANEOUS INCOME	16	642	352
GROSS REVENUE		**41,884**	**29,531**
EXPENSES			
ADMINISTRATIVE AND OPERATIONAL EXPENSES	17	10,822	8,446
REINSURANCE EXPENSES	18	4,568	2,538
WRITE-OFF EXPENSE	19	-	123
FINANCIAL EXPENSES		89	73
IMPAIRMENT LOSSES	5, 6	2,837	42
MISCELLANEOUS EXPENSES	12	971	839
TOTAL EXPENSES		**19,287**	**12,061**
NET OPERATING INCOME		**22,597**	**17,470**
GAIN (LOSS) FROM FOREIGN EXCHANGE		565	(613)
NET INCOME		**23,162**	**16,857**

CREDIT GUARANTEE AND INVESTMENT FACILITY
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019
Expressed in Thousands of United States Dollars

	NOTES	2019	2018
NET INCOME		23,162	16,857
OTHER COMPREHENSIVE INCOME			
ITEM THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME:			
NET UNREALIZED GAIN (LOSS) ON INVESTMENTS MEASURED AT FVTOCI	5	25,878	(1,161)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**49,040**	**15,696**

CREDIT GUARANTEE AND INVESTMENT FACILITY
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)
STATEMENT OF CHANGES IN MEMBERS' EQUITY
For the year ended 31 December 2019
Expressed in Thousands of United States Dollars

	Paid-in Capital					
	Subscribed Capital	**Unpaid Subscription**	**Retained Earnings**	**Reserve**	**Investment Revaluation Reserve**	**Total Members' Equity**
BALANCE, 1 JANUARY 2018	709,000	(6,000)	10,705	34,771	(9,380)	739,096
ADDITIONAL SUBSCRIPTION (NOTE 13)	389,200	(233,000)	-	-	-	156,200
NET INCOME FOR THE YEAR	-	-	16,857	-	-	16,857
ALLOCATION OF PRIOR YEAR INCOME TO RESERVE	-	-	(10,844)	10,844	-	-
OTHER COMPREHENSIVE LOSS						
NET UNREALIZED LOSS ON INVESTMENTS MEASURED AT FVTOCI (NOTE 5)	-	-	-	-	(1,161)	(1,161)
BALANCE, 1 JANUARY 2019	1,098,200	(239,000)	16,718	45,615	(10,541)	910,992
ADDITIONAL SUBSCRIPTION (NOTE 13)	50,800	167,600	-	-	-	218,400
NET INCOME FOR THE YEAR	-	-	23,162	-	-	23,162
ALLOCATION OF PRIOR YEAR INCOME TO RESERVE	-	-	(16,718)	16,718	-	-
OTHER COMPREHENSIVE LOSS						
NET UNREALIZED GAIN ON INVESTMENTS MEASURED AT FVTOCI (NOTE 5)	-	-	-	-	25,878	25,878
BALANCE, 31 DECEMBER 2019	**1,149,000**	**(71,400)**	**23,162**	**62,333**	**15,337**	**1,178,432**

CREDIT GUARANTEE AND INVESTMENT FACILITY
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
Expressed in Thousands of United States Dollars

	NOTES	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
GUARANTEE RELATED INCOME RECEIVED		15,415	10,867
OTHER INCOME RECEIVED		681	315
ADMINISTRATIVE AND OPERATIONAL EXPENSES PAID		(10,849)	(8,789)
REINSURANCE EXPENSES PAID		(3,258)	(1,744)
FINANCIAL EXPENSES PAID		(89)	(73)
NET CASH PROVIDED BY OPERATING ACTIVITIES		**1,900**	**576**
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASES OF INVESTMENTS		(3,442,156)	(3,129,101)
MATURITIES OF INVESTMENTS		3,196,742	2,956,781
INTEREST RECEIVED ON INVESTMENTS		22,110	16,948
REALIZED GAIN FROM SECURITIES		13	4
REALIZED LOSS FROM DERIVATIVES		-	(920)
PURCHASE OF FURNITURE AND EQUIPMENT		(141)	(41)
NET CASH USED IN INVESTING ACTIVITIES		**(223,432)**	**(156,329)**
CASH FLOWS FROM FINANCING ACTIVITIES			
CONTRIBUTIONS RECEIVED	13	218,400	156,200
LEASE LIABILITY PAID		(155)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		**218,245**	**156,200**
EFFECT OF EXCHANGE RATE CHANGES IN CASH		**(14)**	**(5)**
NET (DECREASE) INCREASE IN CASH		**(3,301)**	**442**
CASH AT THE BEGINNING OF THE YEAR		7,041	6,599
CASH AT THE END OF THE YEAR		**3,740**	**7,041**

	NOTES	2019	2018
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
NET INCOME		23,162	16,857
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
DEPRECIATION AND AMORTIZATION – FIXED ASSETS		213	230
DEPRECIATION – ROU ASSETS		145	-
PROVISION FOR EXPECTED CREDIT LOSSES		2,837	42
INTEREST INCOME ON INVESTMENTS		(24,558)	(18,618)
REALIZED GAIN FROM SECURITIES		(14)	(4)
LOSS ON DERIVATIVES		-	(70)
GAIN ON DISPOSAL OF ASSETS		-	(1)
WRITTEN OFF EXPENSE	19	-	123
FX REVALUATION LOSS (GAIN)		19	5
CHANGE IN GUARANTEE FEE RECEIVABLE		(25,819)	(5,581)
CHANGE IN GUARANTEE LIABILITY		26,142	7,081
CHANGE IN UNEARNED INTEREST INCOME		146	141
CHANGE IN ACCOUNTS PAYABLE AND ACCRUED EXPENSES		579	508
CHANGE IN OTHER ASSETS		(1,084)	(276)
CHANGE IN OTHER LIABILITIES		132	139
NET CASH PROVIDED BY OPERATING ACTIVITIES		**1,900**	**576**

NOTE 1— GENERAL INFORMATION

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

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

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

The Contributors in CGIF are the governments of Association of Southeast Asian Nations, People's Republic of China, Japan, Republic of Korea (ASEAN+3) and ADB. Ownership rights are in proportion to capital contributions. The authorized capital of CGIF is US$1,200,000,000, divided into 12,000 shares with a nominal value of US$100,000 each. As of 31 December 2019, $1,149,000,000 are subscribed and $1,077,600,000 are paid in by the Contributors. Details are discussed in Note 13.

The financial statements were approved by the Board of Directors on 14 April 2020 for presentation to the Meeting of Contributors (MOC) scheduled on 25 May 2020. The financial statements are subject to approval at the MOC.

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

Amendments to IFRSs that are mandatorily effective for the current year

In the current period, CGIF has applied the following amendment to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2019.

IFRS 16 Leases

This new standard introduces new or amended requirements with respect to lease accounting. The standard introduces a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

This new standard distinguishes leases and service contracts based on whether an identified asset is controlled by a customer. Distinction on operating leases (off-balance sheet) and finance leases (on-balance sheet) is removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, among others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by this new standard.

The date of initial application of IFRS 16 for the company is 1 January 2019. Before adoption of this standard, CGIF recognizes rental expense as operating lease. CGIF has made use of the practical expedient available on the transition to IFRS 16 not to reassess whether a contract is or contains a lease. As of reporting date, only ADB lease contract was affected with the application of this new standard. CGIF did no adjustment on the opening balance of the retained earnings at the date of initial application since there is a new lease agreement dated 18 January 2019. CGIF recognized beginning February 2019 (effective date of new lease agreement) in the statement of financial position the right of use – lease asset and the corresponding lease liability amounting to $317 thousand.

CGIF applies the definition of a lease and related guidance set out in the new standard to all lease contracts entered into or modified on or after 1 January 2019. The new definition does not significantly change the scope of contracts that meet the definition of a lease for CGIF.

NOTE 3—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

Cash

Cash represents cash on hand or deposits in a bank account. The carrying amount of these assets is approximately equal to their fair value.

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.

Classification of Financial Assets

Financial assets are both measured and classified as amortized cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL), on the basis of both: (i) CGIF's business model for managing the financial assets and (ii) the contractual cashflow characteristics of the financial asset.

Amortized Cost and Effective Interest Method

The amortized cost and effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, 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), excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For purchased or originated credit impaired financial assets, a credit adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting any loss allowance.

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.

Financial Assets at Amortized Cost

Financial assets at amortized cost 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 are considered to be FVTOCI and are reported at fair value. Investment securities are recorded at trade dates. Changes in the carrying amount of these instruments as a result of foreign exchange gains or losses, impairment gains and losses (see below), and interest income are recognized in the profit or loss. All other changes in the carrying amount arising from change in fair value are recognized and accumulated in other comprehensive income under member's equity. Time deposits and certificates of deposits are also classified under investments and are reported at cost which is a reasonable estimate of its fair value.

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.

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. They are subsequently measured at amortized cost net of any loss allowance.

Impairment of Financial Assets

Financial assets that are classified and measured as amortized cost, FVTOCI, and financial guarantee contracts shall recognize loss allowance based on the expected credit loss (ECL) model. Changes in the carrying amount of the allowance account are recognized in the Statement of Net Income under impairment losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

If there has been a significant increase in credit risk of the financial instrument from initial recognition, lifetime ECL is applied to the impairment provision of the item. If the credit risk on the financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument is measured at an amount equal to 12-month ECL.

Significant Increase in Credit Risk

In assessing whether there is a significant increase in credit risk of a financial instrument, CGIF compares the risk of a default occurring on the financial instrument at the reporting date with the risk of default occurring at the date of initial recognition. In making this assessment, CGIF considers if the financial instrument has a credit risk rating of B-, or lower, but not in default or it has deteriorated by at least three notches from the issuance date to valuation date, provided that downgrades exclude those that are due to non-credit causes such as, among others, change in scorecards or in rating guidelines.

For CGIF's investments, it is assumed that the credit risk of a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have a low credit risk (see Notes 4 and 5). A financial instrument is determined to have a low credit risk if (i) it has a low risk of default, (ii) there is a strong capacity for the counterparty to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For financial guarantee contracts, the date that CGIF becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, CGIF considers the changes in the risk that the counterparty will default on the contract.

Definition of Default

For purposes of ECL computation, financial guarantee contracts and guarantee fee receivables shall be in default if the guaranteed-debt issuer defaults on a debt servicing payment, and CGIF's guarantee has been called. An investment is in default if it has been declared by the debt capital market agents particularly the investors' trustee for the investment instrument. Technical defaults, i.e. defaults without missed payments, are not considered defaults for ECL model unless decided otherwise by the GIC.

Credit-impaired Financial Assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Write-off Policy

A financial asset is written-off when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Any recoveries made on a financial asset previously written-off are recognized in profit or loss.

Measurement and Recognition of Expected Credit Losses

The measurement of expected credit losses is a function of the probability of default (PD), loss given default (LGD) and the exposure at default (EAD). CGIF generates point-in-time PDs by considering unbiased and probability weighted scenarios. The Credit Cycle Projection Overlay from S&P Global Market Intelligence (SPGMI) is used in generating these PDs. CGIF uses forecasted or forward-looking values of macroeconomic scenarios with corresponding probability weights. LGD is currently set at 50%. However, for stage 3, assumptions are revised to reflect additional information and realistic assumptions reflective of the default position. As for EAD, for financial assets, this is represented by the gross carrying amount of the assets at reporting date. For financial guarantee contracts, the exposure is the sum (i) of the nominal value of the bond (or debt instrument) guaranteed translated into USD at the reporting date's exchange rate, (ii) one coupon payment, and (iii) past due coupons and administrative cost of recovery (if in stage 3).

Derecognition of Financial Assets

CGIF derecognizes a financial asset only when the contractual rights to 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 FVTOCI is derecognized or disposed of, the unrealized gains or losses previously recognized in accumulated other comprehensive income will be recognized in the Statement of Net Income.

Guarantee Liability

Guarantee liabilities recorded in the Statement of Financial Position represents the unamortized balance of the total present value of the guarantee fees received or expected to be received under the terms of the guarantee. Subsequently, the guarantee liabilities are measured at the higher of the unamortized balance of the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IFRS 15, and the amount of loss allowance determined in accordance with the ECL model.

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.

Leases

Before 1 January 2019, CGIF's lease are classified as operating lease. Effective 1 January 2019 CGIF recognizes a right of use asset and a lease liability. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred and any estimated costs of dismantling and the cost of any removal and restoration of the underlying asset, less any lease incentives received.

Right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of useful life of the asset or the end of the lease term. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. It is remeasured when there is a change in discount rate, or if there is a change on CGIF's decision to extend or terminate the lease contract based on assessment.

Furniture, Fixtures and Equipment

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

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

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

The estimated useful lives by asset class are as follows:

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

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

Intangible Assets

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

Impairment of Tangible and Intangible Assets

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

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

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

Offsetting Arrangements

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

Subscribed Capital

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

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

Segment Reporting

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

Fair Value of Financial Instruments

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

Functional and Presentation Currency

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

Translation of Currencies

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

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of CGIF's accounting policies, which are described above, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Since the estimates are based on judgment and available information, actual results may differ and might have a material impact on the financial statement.

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. This includes fair value measurements and valuation processes.

As explained in accounting policies above, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether there is a significant increase in credit risk, CGIF takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Furthermore, in calculating the loss allowance, CGIF uses the Credit Cycle Projection Overlay from SPGMI to generate the point in time probabilities of default (PIT-PD). Unbiased and probability weighted scenarios are considered in generating these PIT-PDs. For stage 3, PD will be 100%. LGD shall be set at 50% for stages 1 and 2. For stage 3, LGD shall follow the same guidelines as stage 2, but with revised assumption to reflect additional information and realistic assumptions reflective of the actual position on default.

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 operational risk. These risks are managed pursuant to Operational Policies, and Risk Management Framework (RMF), 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 at gross carrying amount as of 31 December 2019 and 2018 are as follows (in $'000):

	2019	2018
Financial assets		
FVTOCI	1,055,212	845,262
Financial assets at amortized cost	199,030	111,852
Financial liabilities		
Financial liabilities at amortized cost	2,644	1,956
Lease liabilities	167	-

Credit Risk

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

Credit concentration of investments are controlled by policy limits on exposure per issuer, per type of issuer, and per country rating grade. CGIF controls the concentration of investment per country of issuer. The lower the country sovereign rating grade, the lower the investment concentration limit – 0% of CGIF capital for countries rated A or lower; up to 30% of CGIF capital for countries rated AAA, except for the US where the investment concentration limit is 100% of CGIF capital. Investments in short-term money market instruments are excluded in reckoning country concentration against country limits.

CGIF only considers for credit guarantee bond issuers that hurdle a policy maximum acceptable risk rating. Acceptable borrowers undergo a stringent due diligence review. Guarantee Underwriting Proposals (GUPs) require approval of management's Guarantee and Investment Committee (GIC) and of the Board of Directors (Board). In aid of informed decisions on GUPs, the Board is furnished with credit review notes from CGIF's RMD and from an external advisor to the Board. As of 31 December 2019, CGIF's guarantee portfolio had a weighted average risk rating of BB.

CGIF controls concentrations of credit risk. Guarantee exposure to any country and to any currency is capped at 20% and 40%, respectively, of CGIF's Maximum Guarantee Capacity (MGC), where MGC is the product of (a) total paid-in capital of CGIF plus retained earnings, less credit loss reserves and foreign exchange loss reserves, less all illiquid investments and (b) the maximum leverage ratio of 2:5:1. CGIF's maximum leverage ratio, currently 2.5:1, is determined by the MOC on the recommendation of the CGIF Board. Aggregate guarantee exposure to any single Intermediate Jurisdiction (i.e., a country outside of the ASEAN+3 where a guaranteed borrower is registered) and aggregate exposure to all Intermediate Jurisdictions are limited to 20% and 40%, respectively, of CGIF's MGC. Aggregate guarantee exposure to any sector and to any industry is limited to 40% and 20%, respectively, of MGC. In any country, exposure to any industry may not exceed 10% of MGC. Single borrower exposures, and single group exposures, may not exceed 20% of CGIF's paid-in capital. CGIF's leverage ratio and concentration ratios are reported quarterly to the CGIF Board.

The carrying amount of financial assets recorded in the financial statements and the guarantee obligations disclosed in Note 6 represent CGIF's maximum exposure to credit risk.

A reinsurance treaty whereby CGIF cedes to a consortium of reinsurers agreed portions of credit risk from bond issuers reduces CGIF's exposure to credit risk from its guarantee portfolio. 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 Treasury Risk Management Guidelines restrict CGIF's investment portfolio duration to no more than 5 years. The duration of CGIF's portfolio is the market value-weighted average of effective duration of all outstanding investments. As of 31 December 2019, CGIF's investment portfolio had remaining maturities of up to 9.84 years (5.75 years - 31 December 2018), with duration of 3.08 years (2.61 years - 31 December 2018). CGIF's investments are sensitive to interest rate movements. For CGIF's fixed income portfolio at 31 December 2019, it is estimated that a 100 basis points upward/downward parallel shift in the yield curve would cause an unrealized loss/gain of about $36.2 million ($23.7 million - 31 December 2018).

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

2019

	Asset		Liabilities	
	Local Currency	USD Equivalent	Local Currency	USD Equivalent
VND	839,101,505	36,210	-	-
SGD	12,953	9,564	-	-
THB	91,548	3,035	683	23
PHP	155,260	3,055	13,478	265
MYR	44	11	-	-
IDR	1,281	-	-	-
LAK	539	-	-	-
TOTAL		51,875		288

2018

	Asset		Liabilities	
	Local Currency	USD Equivalent	Local Currency	USD Equivalent
PHP	236,739	4,469	4,415	83
MYR	44	11	42	10
CNY	-	-	14	2
THB	123,072	3,777	2,490	77
SGD	2,509	1,829	3	2
VND	422,592,072	18,160	-	-
LAK	548	-	-	-
TOTAL		28,246		174

CGIF is exposed to foreign exchange risk underlying foreign currency payables and receivables relating mostly to CGIF's guarantee operation. Until November 2017, CGIF policy required the hedging of foreign exchange risk relating to guarantee fee receivables to the extent possible. Subject to the availability of hedge markets, transaction costs and administrative cost, some foreign exchange risk exposure were left without hedge. Since November 2017, the hedging of foreign exchange risk on guarantee fee receivables is no longer required and is done on a case-by-case basis. Accordingly, the foreign exchange exposure limit was removed. For CGIF's foreign exchange exposure at 31 December 2019, it is estimated that a 10% adverse change in FX rates in the relevant foreign currency exposure will cause an instant loss of $4.70 million ($2.81 million - 31 December 2018).

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 only with eligible counterparties pursuant to CGIF's RMF, Treasury Risk Management Guidelines.

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

Liquidity Risk

Liquidity risk can arise if CGIF is unable to provide funds to meet its financial and operational commitments. CGIF maintains adequate liquidity resources to meet the cash requirements and potential calls on the guarantees issued. CGIF assesses and monitors the availability of its liquid assets on a quarterly basis. CGIF conducts quarterly tests of its liquidity under stress scenarios where CGIF has to meet lumpy obligations related to claims on guarantees, and raise funds from various sources. A liquidity stress test conducted on CGIF's guarantee portfolio as of 31 December 2019 and 2018 indicates that CGIF can generate the liquidity that will be required to meet 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.

	2019					
	Less than 1 month	1 to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total
Financial assets						
FVTOCI	20,003	-	45,034	776,153	214,022	1,055,212
Financial assets at amortized cost	10,882	57,888	72,864	43,294	14,102	199,030
Total financial assets	30,885	57,888	117,898	819,447	228,124	1,254,242
Financial liabilities						
Financial liabilities at amortized cost	227	432	1,724	261	-	2,644
Lease liability	14	27	126	-	-	167
Total financial liabilities	241	459	1,850	261	-	2,811
Net maturity gap	30,644	57,429	116,048	819,186	228,124	1,251,431

	2018					
	Less than 1 month	1 to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total
Financial assets						
FVTOCI	33,982	29,992	53,780	640,213	87,295	845,262
Financial assets at amortized cost	66,864	1,874	8,319	30,502	4,293	111,852
Total financial assets	100,846	31,866	62,099	670,715	91,588	957,114
Financial liabilities						
Financial liabilities at amortized cost	159	657	886	254	-	1,956
Total financial liabilities	159	657	886	254	-	1,956
Net maturity gap	100,687	31,209	61,213	670,461	91,588	955,158

Capital Resources

CGIF's capital resources comprise of capital stock, retained earnings and reserves. The primary objective in the management of capital resources is to protect CGIF's 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's capital resources are placed with the Trustee, ADB.

Capital Adequacy

CGIF deems that it has adequate capital to underwrite credit guarantees for as long as its capital exceeds total capital charge; alternatively, for as long as the capital-to-capital charge ratio – capital adequacy ratio (CAR) – exceeds 1.1. CGIF's CAR at 31 December 2019 was at 3.96 (4.01 – 31 December 2018).

Operating Risk

CGIF manages operating risks through quarterly risk and control self-assessments (RCSAs) by each department of 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):

	2019	2018
Certificates of Deposit	45,000	-
Time Deposits	76,000	59,293
FVTOCI		
Government-related-entity or government-guaranteed obligations (GGO)	946,055	741,686
Corporate obligations	109,157	103,576
Total FVTOCI	1,055,212	845,262
Total Investment	1,176,212	904,555

ADB, as the Trustee, manages capital resources in accordance with CGIF's Treasury Risk Management 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 period ended 31 December 2019, based on the portfolio held at the beginning and end of each month without the effect of change in fair value was 2.34% (2.07% - 31 December 2018)

The estimated fair value and amortized cost of the investments by contractual maturity as of 31 December 2019 and 2018 are as follows (in $'000):

	2019		2018	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in less than one year	186,036	186,132	177,046	177,499
Due in one to five years	776,153	764,089	640,214	650,149
Due more than five years	214,023	210,688	87,295	87,465
TOTAL	1,176,212	1,160,909	904,555	915,113

Fair Value Disclosure

The fair value of the investments as of 31 December 2019 and 2018 are as follows (in $'000):

	2019	Fair Value Measurements		
		Level 1	Level 2	Level 3
Certificates of Deposits	45,000	-	45,000	-
Time Deposits	76,000	-	76,000	-
Government-related-entity or GGO	946,055	916,604	29,451	-
Corporate obligations	109,157	109,157	-	-

	2018	Fair Value Measurements		
		Level 1	Level 2	Level 3
Time Deposits	59,293	-	59,293	-
Government-related-entity or GGO	741,686	741,686	-	-
Corporate obligations	103,576	103,576	-	-

If available, active market quotes are used to assign fair values to investment securities. These include government-related-entity/government-guaranteed obligations and corporate 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 and certificates of deposits are reported at cost, which approximates fair value.

There were no inter-level transfers during the years ended 31 December 2019 and 2018.

Impairment Losses

For purposes of impairment assessment, the FVTOCI in CGIF's portfolio are considered to have low credit risk as the counterparties of these investments have a minimum A+ credit rating for government related bonds of Contributor countries and AA- for all others. Accordingly, the loss allowance for these financial instruments is measured at an amount equal to 12-month ECL.

Impairment losses do not reduce the carrying amount of the debt instruments at FVTOCI in the statement of financial position, which remains at fair value. The balance at the end of the year reflected below is included in the Accumulated other comprehensive income.

The movements in the credit loss allowance are as follows (in $'000):

	2019	2018
Balance at beginning of the year	17	11
Loss allowance recognized in profit or loss under impairment losses during the year on:		
Assets originated	14	7
Reversals	(2)	(1)
Change in credit risk	5	-
	17	6
Balance at end of the year	34	17

Accrued Interest Income

The details of accrued interest income from investments as of 31 December 2019 and 2018 are as follows (in $'000):

	2019	2018
FVTOCI	6,650	5,008
Certificates of Deposits	338	-
Time Deposits	204	116
TOTAL	7,192	5,124

NOTE 6 – GUARANTEES

As of 31 December 2019, CGIF has issued guarantees covering bonds denominated in Thai Baht, Singapore Dollar, Vietnamese Dong and Philippine Peso. The total outstanding amount of the guarantees issued under the related bonds was $2,090 million as of 31 December 2019 ($1,410 million – 31 December 2018). The guarantees are inclusive of coupon payments.

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

31 December 2019

	Local Currency			USD Equivalent
	Principal	Coupon	Total Obligation	of Total Obligation
VND	15,718,000,000	7,257,415,977	22,975,415,977	991,473
SGD	695,000	135,491	830,491	613,225
THB	9,100,000	1,031,104	10,131,104	335,912
PHP	6,600,850	1,009,670	7,610,520	149,740
				2,090,350

31 December 2018				
	Local Currency			USD Equivalent
	Principal	Coupon	Total Obligation	of Total Obligation
VND	9,700,000,000	3,720,901,251	13,420,901,251	576,747
SGD	475,000	96,597	571,597	416,585
THB	6,880,000	917,338	7,797,338	239,300
PHP	6,979,600	1,268,175	8,247,775	155,698
IDR	300,000,000	9,198,000	309,198,000	21,211
				1,409,541

As of 31 December 2019, a guarantee liability of $73.2 million ($44.4 million - 31 December 2018) was reported on the Statement of Financial Position. The unamortized balance of guarantee liabilities is compared vs the required ECL on a per instrument basis. As of 31 December 2019 and 2018, and the reported liability is composed of the following (in $'000):

	2019	2018
Unamortized balance of present value of total guarantee fees	70,500	44,358
Additional provision for ECL	2,704	-
TOTAL	73,204	44,358

As of 31 December 2019, additional provision for ECL was provided for one account that was classified into stage 2. The total amount of loss allowance for guarantee obligations determined through ECL amounted to $7.8 million as of 31 December 2019 ($3.2 million – 31 December 2018).

The reported guarantee fee receivable of $65.6 million represents the present value of the stream of total guarantee fees expected to be received for the guarantee outstanding as of 31 December 2019 ($39.9 million – 31 December 2018) net of allowance for credit losses.

As of 31 December 2019 and 2018, all of CGIF's future guarantee fee receivables are classified as Level 3 within the fair value hierarchy.

The Finance Department is responsible for determining and reporting the fair value of guarantees reported in the Statement of Financial Position. Future guarantees are stated at discounted present value using significant unobservable inputs such as discount rates applicable to individual guarantee contracts that are internally determined and are classified under Level 3. The valuation technique and significant unobservable quantitative inputs for guarantee receivables classified as Level 3 as of 31 December 2019 and 2018 were summarized below:

	Valuation Technique	**Unobservable Input**	**Range**	
			2019	**2018**
Guarantee receivable	Discounted cash flows	Discount rates	3.15% to 9.70%	3.15% to 10.02%

There were no inter-level transfers during the year ended 31 December 2019 and 2018.

Impairment Losses

The movements in the credit loss allowance for guarantee fees receivable are as follows (in $'000):

	2019	2018
Balance at beginning of the year	164	128
Loss allowance recognized in profit or loss under impairment losses during the year on:		
Assets originated	128	48
Reversals	(31)	(20)
Additions	19	8
	116	36
Balance at end of the year	280	164

NOTE 7—LEASES

As of 31 December 2019, only CGIF's office rental contract with ADB qualifies under the new lease accounting. CGIF recognized right of use- lease asset. This is initially measured at cost and is subsequently depreciated on a straight-line basis for two years. The estimated life of the asset is based on the terms of the lease contract. The details of the amount presented in the Statement of Financial Position are as follows:

Gross amount	317
Accumulated depreciation	(145)
NET Balance at 31 December 2019	172

Depreciation – ROU Lease Asset charged for the period is reported under administrative expenses in the Statement of Net Income.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payment includes fixed payment and in-substance fixed payments for the amortization of alteration cost. The discount rate used is the latest bank average domestic lending rate (annual) published by the Central Bank of the Philippines (BSP) upon date of commencement. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. Interest expense is reported under financial expenses in the Statement of Net Income.

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	TOTAL
Cost				
1 January 2018	300	272	5	577
Additions	-	36	-	36
Disposals	(4)	(42)	-	(46)
31 December 2018	296	266	5	567
Additions	56	83	-	139
Disposals	(3)	-	-	(3)
31 December 2019	349	349	5	703
Accumulated Depreciation/Amortization				
1 January 2018	(179)	(190)	(5)	(374)
Depreciation	(37)	(39)	-	(76)
Amortization	-	-	-	-
Disposals	4	42	-	46
31 December 2018	(212)	(187)	(5)	(404)
Depreciation	(36)	(49)	-	(85)
Amortization	-	-	-	-
Disposals	3	-	-	3
31 December 2019	(245)	(236)	(5)	(486)
NET, 31 December 2019	104	113	-	217
NET, 31 December 2018	84	79	-	163

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

NOTE 9—INTANGIBLE ASSETS - NET

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 2018	1,185
Additions	6
Disposals	(221)
31 December 2018	970
Additions	2
Disposals	-
31 December 2019	972
Accumulated Depreciation/Amortization	
1 January 2018	(882)
Amortization	(153)
Disposals	221
31 December 2018	(814)
Amortization	(128)
Disposals	-
31 December 2019	(942)
NET, 31 December 2019	30
NET, 31 December 2018	156

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

NOTE 10—OTHER ASSETS

Other assets pertain to commission receivable from reinsurance, advances made by CGIF for staff benefits, prepaid expenses, subscriptions and licenses as well as security deposit.

NOTE 11—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

NOTE 12—RELATED PARTY TRANSACTIONS

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

Provision for ADB's administration fee, amounting to $0.97 million ($0.84 million – 2018), recorded in other miscellaneous expense was accrued in other liabilities. ADB's administration fee is equivalent to 10 bps of contributions received. The amount of $0.97 million pertaining to ADB's administration fee for 2019 will be settled subsequently in April 2020. Key management personnel total compensation of short-term employee benefits for 2019 amounted to $2.88 million ($2.78 million – 2018).

NOTE 13—PAID-IN CAPITAL

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

The authorized capital stock of CGIF as of 31 December 2019 and 2018 are as follows (in $'000):

	2019	2018
Authorized capital (12,000 shares)	1,200,000	1,200,000
Subscribed	1,149,000	1,098,200
Unsubscribed	51,000	101,800
Total authorized capital	1,200,000	1,200,000
Subscribed capital comprises:		
Amounts received	1,077,600	859,200
Amounts not yet due	71,400	239,000
Total subscribed capital	1,149,000	1,098,200

The AoA prescribe that shares shall be allocated to Contributors only after full payment has been received. Therefore, only paid-in capital shall be taken into account when calculating each Contributor's voting rights.

The details of CGIF capital as of 31 December 2019 and 2018 are as follows (in $'000 except for number of shares):

	31 December 2019			
Contributor	**No. of shares**	**Subscribed**	**Amount received**	**Amount not yet received**
Asian Development Bank	1,800	180,000	180,000	-
ASEAN Member Countries				
Brunei Darussalam	56	5,600	5,600	-
Cambodia	2	200	200	-
Indonesia	216	21,600	12,600	9,000
Lao People's Democratic Republic	2	200	200	-
Malaysia	176	17,600	12,600	5,000
Myanmar, Republic of the Union of	1	100	100	-
Philippines	216	21,600	21,600	-
Singapore	216	21,600	21,600	-
Thailand	216	21,600	12,600	9,000
Viet Nam	19	1,900	1,100	800
	1,120	112,000	88,200	23,800
Others (non-ASEAN Member Countries)				
China, People's Republic of	3,428	342,800	342,800	-
Japan Bank for International Cooperation	3,428	342,800	342,800	-
Korea, Republic of	1,714	171,400	123,800	47,600
	8,570	857,000	809,400	47,600
Total	11,490	1,149,000	1,077,600	71,400

	31 December 2018			
Contributor	**No. of shares**	**Subscribed**	**Amount received**	**Amount not yet received**
Asian Development Bank	1,300	130,000	130,000	-
ASEAN Member Countries				
Brunei Darussalam	56	5,600	5,600	-
Cambodia	2	200	200	-
Indonesia	216	21,600	12,600	9,000
Lao People's Democratic Republic	2	200	100	100
Malaysia	176	17,600	12,600	5,000
Myanmar, Republic of the Union of	1	100	100	-
Philippines	216	21,600	19,900	1,700
Singapore	216	21,600	21,600	-
Thailand	216	21,600	12,600	9,000
Viet Nam	11	1,100	1,100	-
	1,112	111,200	86,400	24,800

Contributor	No. of shares	Subscribed	Amount received	Amount not yet received
Others (non-ASEAN Member Countries)				
China, People's Republic of	3,428	342,800	200,000	142,800
Japan Bank for International Cooperation	3,428	342,800	342,800	-
Korea, Republic of	1,714	171,400	100,000	71,400
	8,570	857,000	642,800	214,200
Total	10,982	1,098,200	859,200	239,000

Of the $218.4 million increase in paid-in capital in 2019, $167.6 million was from the additional subscription in previous years and $50.8 million was from additional subscription in 2019.

NOTE 14— RESERVE

The allocation of 2018 net income in retained earnings to Reserve was approved by the Contributors at the 16 May 2019 Meeting of Contributors, per Resolution No. 2019-A-04.

NOTE 15— INTEREST INCOME

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

	2019	2018
FVTOCI	21,747	16,692
Time Deposits	2,473	1,927
Guarantee	1,594	1,088
Certificates of Deposits	339	-
Others	24	35
	26,177	19,742

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. Total miscellaneous income for 2018 includes Fair value changes – derivatives which was previously reported as a separate line item (none in 2019).

NOTE 17— ADMINISTRATIVE AND OPERATIONAL EXPENSE

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

	2019	2018
Staff Related Expenses	6,771	5,707
Financial and Legal Services	1,444	980
Short Term Staff Consultants	890	374
Business Travel	363	369
Recruitment Expense	335	116
Depreciation and Amortization – Fixed Assets	213	229
Depreciation – ROU Assets	145	-
MOC and BOD Expenses	185	157
Rental Expense	12	133
Others	464	381
	10,822	8,446

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 were ceded to the consortium up to the agreed portion. For guaranteed bonds with long tenors, special approvals from the consortium may be required for inclusion in the treaty.

The reinsurance treaty was renewed on 7 December 2017 and shall apply to Guarantees issued during the 12-month period commencing on 1 January 2018 and expiring on 31 December 2018. It was further renewed on 3 January 2019 and was applied to the 12-month period covering 1 January 2019 to 31 December 2019. Before end – 2019, another renewal of treaty was signed to cover the 1-year period of 2020.

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

By the end of 2019, the commission from reinsurance reported in the statement of profit and loss represents the commission income of 27.5% for the premium ceded and profit commission on the annual profit derived from all the fees ceded under a treaty. CGIF recognized profit commission of 20% on the first treaty.

In March 2019, CGIF has entered into a risk sharing agreement with KEXIM in relation to one guarantee account. KEXIM's proportion is equal to 50% of the guaranteed amount and as such, participation fee amounting to 50% of the guarantee fees will be ceded. The participation fee is paid to KEXIM at the same day CGIF receives the guarantee fee from the account.

NOTE 19— WRITE-OFF EXPENSE

Write-off expense represents a write-off of the withholding tax receivables that were deducted from guarantee fee payments of clients pending the clarification of tax exempt status. As management judged tax exemption was not applicable to these receivables, these accounts were directly written-off in the statement of financial position at the end of the year. There were no accounts written-off as of 31 December 2019 ($0.12 million – 31 December 2018).

NOTE 20— SUBSEQUENT EVENTS

Based on CGIF Management's assessment, COVID-19 pandemic outbreak may adversely affect some accounts in CGIF guarantee portfolio. However, the magnitude of the financial impact will depend on how the outbreak evolves, which remains uncertain as of the date of the report.