

**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 2020**

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

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

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## INDEPENDENT AUDITOR'S REPORT

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

#### Opinion

We have audited the financial statements of Credit Guarantee and Investment Facility (CGIF), which comprise the statement of financial position as at December 31, 2020 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 CGIF as at December 31, 2020, 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 CGIF 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 CGIF'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 CGIF or to cease operations, or has no realistic alternative but to do so.

Management is responsible for overseeing CGIF's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CGIF'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 CGIF'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 CGIF 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

27 April 2021

**CREDIT GUARANTEE AND INVESTMENT FACILITY**  
**(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**  
**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2020**  
*Expressed in Thousands of United States Dollars*

	NOTES	2020	2019
<b>ASSETS</b>			
CASH		3,460	3,740
INVESTMENTS	5	1,270,349	1,176,212
ACCRUED INTEREST INCOME	5	7,563	7,192
GUARANTEE FEE RECEIVABLE, NET	6	67,904	65,647
RIGHT OF USE – LEASE ASSET, NET	7	508	172
FURNITURE, FIXTURES AND EQUIPMENT, NET	8	181	217
INTANGIBLE ASSETS, NET	9	16	30
OTHER ASSETS	10	1,678	1,857
<b>TOTAL ASSETS</b>		<b>1,351,659</b>	<b>1,255,067</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>			
<b>LIABILITIES</b>			
GUARANTEE LIABILITY	6	83,381	73,204
UNEARNED INTEREST INCOME – GUARANTEES		794	548
LEASE LIABILITY	7	496	167
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	11	1,390	1,745
OTHER LIABILITIES	12	1,087	971
<b>TOTAL LIABILITIES</b>		<b>87,148</b>	<b>76,635</b>
<b>MEMBERS' EQUITY</b>			
CAPITAL STOCK			
PAID-IN CAPITAL	13	1,102,200	1,077,600
RETAINED EARNINGS		23,963	23,162
RESERVE	14	85,495	62,333
ACCUMULATED OTHER COMPREHENSIVE INCOME			
INVESTMENT REVALUATION RESERVE	5	52,853	15,337
<b>TOTAL MEMBERS' EQUITY</b>		<b>1,264,511</b>	<b>1,178,432</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>		<b>1,351,659</b>	<b>1,255,067</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY  
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)  
STATEMENT OF NET INCOME  
For the year ended 31 December 2020  
Expressed in Thousands of United States Dollars**

	NOTES	2020	2019
<b>REVENUE</b>			
GUARANTEE FEES		17,392	12,947
INTEREST INCOME	15	28,852	26,177
REALIZED GAIN FROM SECURITIES		40	14
COMMISSION - REINSURANCE	18	2,327	2,104
MISCELLANEOUS INCOME	16	988	642
<b>GROSS REVENUE</b>		<b>49,599</b>	<b>41,884</b>
<b>EXPENSES</b>			
ADMINISTRATIVE AND OPERATIONAL EXPENSES	17	9,358	10,822
REINSURANCE EXPENSES	18	5,812	4,568
FINANCIAL EXPENSES		90	89
IMPAIRMENT LOSSES	5, 6	9,505	2,837
MISCELLANEOUS EXPENSES	12	1,087	971
<b>TOTAL EXPENSES</b>		<b>25,852</b>	<b>19,287</b>
<b>NET OPERATING INCOME</b>		<b>23,747</b>	<b>22,597</b>
GAIN FROM FOREIGN EXCHANGE		216	565
<b>NET INCOME</b>		<b>23,963</b>	<b>23,162</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY  
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)  
STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31 December 2020  
Expressed in Thousands of United States Dollars**

	<b>NOTES</b>	<b>2020</b>	<b>2019</b>
NET INCOME		23,963	23,162
OTHER COMPREHENSIVE INCOME			
ITEM THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME:			
NET UNREALIZED GAIN ON INVESTMENTS MEASURED AT FVTOCI	5	37,516	25,878
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>61,479</b>	<b>49,040</b>

**CREDIT GUARANTEE AND INVESTMENT FACILITY  
(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)  
STATEMENT OF CHANGES IN MEMBERS' EQUITY  
For the year ended 31 December 2020  
Expressed in Thousands of United States Dollars**

	Paid-in Capital			Reserve	Investment Revaluation Reserve	Total Members' Equity
	Subscribed Capital	Unpaid Subscription	Retained Earnings			
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, 1 JANUARY 2020	1,149,000	(71,400)	23,162	62,333	15,337	1,178,432
ADDITIONAL SUBSCRIPTION (NOTE 13)	-	24,600	-	-	-	24,600
NET INCOME FOR THE YEAR	-	-	23,963	-	-	23,963
ALLOCATION OF PRIOR YEAR INCOME TO RESERVE	-	-	(23,162)	23,162	-	-
OTHER COMPREHENSIVE LOSS						
NET UNREALIZED GAIN ON INVESTMENTS MEASURED AT FVTOCI (NOTE 5)	-	-	-	-	37,516	37,516
<b>BALANCE, 31 DECEMBER 2020</b>	<b>1,149,000</b>	<b>(46,800)</b>	<b>23,963</b>	<b>85,495</b>	<b>52,853</b>	<b>1,264,511</b>



**CREDIT GUARANTEE AND INVESTMENT FACILITY**  
**(A TRUST FUND OF THE ASIAN DEVELOPMENT BANK)**  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2020  
Expressed in Thousands of United States Dollars

	NOTES	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
GUARANTEE RELATED INCOME RECEIVED		19,445	15,415
OTHER INCOME RECEIVED		1,875	681
ADMINISTRATIVE AND OPERATIONAL EXPENSES PAID		(10,419)	(10,849)
REINSURANCE EXPENSES PAID		(4,042)	(3,258)
FINANCIAL EXPENSES PAID		(91)	(89)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>6,768</b>	<b>1,900</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
PURCHASES OF INVESTMENTS		(1,522,468)	(3,442,156)
MATURITIES OF INVESTMENTS		1,464,302	3,196,742
INTEREST RECEIVED ON INVESTMENTS		26,672	22,110
REALIZED GAIN FROM SECURITIES		40	13
PURCHASE OF FURNITURE AND EQUIPMENT		(26)	(141)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(31,480)</b>	<b>(223,432)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
CONTRIBUTIONS RECEIVED	13	24,600	218,400
LEASE LIABILITY PAID		(163)	(155)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>24,437</b>	<b>218,245</b>
<b>EFFECT OF EXCHANGE RATE CHANGES IN CASH</b>		<b>(5)</b>	<b>(14)</b>
<b>NET DECREASE IN CASH</b>		<b>(280)</b>	<b>(3,301)</b>
CASH AT THE BEGINNING OF THE YEAR		3,740	7,041
<b>CASH AT THE END OF THE YEAR</b>		<b>3,460</b>	<b>3,740</b>

**RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

NET INCOME		23,963	23,162
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
DEPRECIATION AND AMORTIZATION – FIXED ASSETS		104	213
DEPRECIATION – ROU ASSETS		159	145
PROVISION FOR EXPECTED CREDIT LOSSES		9,505	2,837
INTEREST INCOME ON INVESTMENTS		(26,368)	(24,558)
REALIZED GAIN FROM SECURITIES		(40)	(14)
FX REVALUATION LOSS		1	19
CHANGE IN GUARANTEE FEE RECEIVABLE		(3,366)	(25,819)
CHANGE IN GUARANTEE LIABILITY		2,658	26,142
CHANGE IN UNEARNED INTEREST INCOME		246	146
CHANGE IN ACCOUNTS PAYABLE AND ACCRUED EXPENSES		(382)	579
CHANGE IN OTHER ASSETS		173	(1,084)
CHANGE IN OTHER LIABILITIES		115	132
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>6,768</b>	<b>1,900</b>

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020**

**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 2020, \$1,149,000,000 are subscribed and \$1,102,200,000 are paid in by the Contributors. Details are discussed in Note 13.

The financial statements were approved by the Board of Directors on 27 April 2021 for presentation to the Meeting of Contributors (MOC) scheduled on 28 May 2021. 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 2020.

*Definition of Material (Amendments to IAS 1 and IAS 8)*

On 31 October 2018, the IASB issued Definition of Material (Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors) to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after 1 January 2020. The application of this amendment does not have impact on CGIF's Financial Statements.

### ***Revised IFRS in issue but not yet effective***

CGIF has not applied the following revised IFRS that has been issued but not yet effective:

#### **IAS 1 Presentation of Financial Statements**

On 23 January 2020, the IASB issued *Classification of Liabilities as Current or Non-Current* providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. CGIF does not anticipate any significant impact on CGIF's Financial Statements upon the application of these amendments.

### **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.

### *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*

CGIF assesses a financial instrument to have an SICR if any of the following conditions are met: (1) credit risk rating drops to B- or lower, but is not in default; (2) credit risk rating drops by at least 3 notches in the recent past 36 months and is at least 3 notches below credit risk rating at inception; or (3) credit risk rating drops by at least 4 notches from inception if in its initial four years after inception, or by at least 5 notches from inception if beyond four years from inception. For financial guarantee contracts, the date that CGIF becomes a party to an irrevocable commitment is the date of initial recognition for the purpose of assessing impairment.

CGIF revised the relative SICR conditions as outlined in (2) and (3) above effective October 2020, on top of the absolute SICR condition (1), taking into consideration CGIF's portfolio profile and the requirements of IFRS 9.

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 once an event of default in the Guarantee Agreement has occurred, 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*

CGIF applies definition of a lease and the related guidance set out in the IFRS for contracts entered into as lease. As lessee, CGIF recognizes right of use asset and lease liability in the Statement of Financial Position.

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 net carrying amount as of 31 December 2020 and 2019 are as follows (in \$'000):

	<u>2020</u>	<u>2019</u>
<b>Financial assets</b>		
FVTOCI	1,187,349	1,055,212
Financial assets at amortized cost	162,939	199,030
<b>Financial liabilities</b>		
Financial liabilities at amortized cost	2,399	2,644
Lease liabilities	496	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 2020, CGIF's guarantee portfolio had a weighted average risk rating of BB (BB flat – 31 December 2019).

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, plus reserves less net credit loss reserves less foreign exchange loss reserves, and less all illiquid asset 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 Type-B (investor-procured) guarantee exposure is limited to 20% of 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 2020, CGIF's investment portfolio had remaining maturities of up to 9.93 years (9.84 years - 31 December 2019), with duration of 3.01 years (3.08 years - 31 December 2019). CGIF's investments are sensitive to interest rate movements. For CGIF's fixed income portfolio at 31 December 2020, it is estimated that a 100 basis points upward/downward parallel shift in the yield curve would cause an unrealized loss/gain of about \$38.3million (\$36.2 million - 31 December 2019).

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

	2020			
	Asset		Liabilities	
	Local Currency	USD Equivalent	Local Currency	USD Equivalent
VND	667,640,504	28,868	-	-
JPY	1,048,415	10,099	-	-
THB	262,535	8,702	-	-
SGD	10,807	8,127	-	-
PHP	105,026	2,186	30,770	640
MYR	44	11	-	-
IDR	1,281	-	-	-
LAK	539	-	-	-
TOTAL		<u>57,993</u>		<u>640</u>

**2019**

	Asset		Liabilities	
	Local	USD	Local	USD
	Currency	Equivalent	Currency	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

CGIF is exposed to foreign exchange risk underlying foreign currency payables and receivables relating mostly to CGIF's guarantee operation. For CGIF's foreign exchange exposure at 31 December 2020, it is estimated that a 10% adverse change in FX rates in the relevant foreign currency exposure will cause an instant loss of \$5.21 million (\$4.70 million - 31 December 2019).

*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 2020 and 2019 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.

	2020					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	
<b>Financial assets</b>						
FVTOCI	-	40,094	158,644	722,655	265,956	1,187,349
Financial assets at amortized cost	6,120	2,495	96,620	44,132	14,961	164,328
<b>Total financial assets</b>	<b>6,120</b>	<b>42,589</b>	<b>255,264</b>	<b>766,787</b>	<b>280,917</b>	<b>1,351,677</b>
<b>Financial liabilities</b>						
Financial liabilities at amortized cost	225	525	1,207	442	-	2,399
Lease liability	13	25	117	341	-	496
<b>Total financial liabilities</b>	<b>238</b>	<b>550</b>	<b>1,324</b>	<b>783</b>	<b>-</b>	<b>2,895</b>
<b>Net maturity gap</b>	<b>5,882</b>	<b>42,039</b>	<b>253,940</b>	<b>766,004</b>	<b>280,917</b>	<b>1,348,782</b>
	<b>2019</b>					
	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
<b>Financial assets</b>						
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
<b>Total financial assets</b>	<b>30,885</b>	<b>57,888</b>	<b>117,898</b>	<b>819,447</b>	<b>228,124</b>	<b>1,254,242</b>
<b>Financial liabilities</b>						
Financial liabilities at amortized cost	227	432	1,724	261	-	2,644
Lease liability	14	27	126	-	-	167
<b>Total financial liabilities</b>	<b>241</b>	<b>459</b>	<b>1,850</b>	<b>261</b>	<b>-</b>	<b>2,811</b>
<b>Net maturity gap</b>	<b>30,644</b>	<b>57,429</b>	<b>116,048</b>	<b>819,186</b>	<b>228,124</b>	<b>1,251,431</b>

### *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 2020 was at 3.88 (3.96 – 31 December 2019). CGIF's overall strategy remains unchanged from prior year.

## 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):

	<u>2020</u>	<u>2019</u>
Certificates of Deposit	83,000	45,000
Time Deposits	-	76,000
FVTOCI		
Government-related-entity or government-guaranteed obligations (GGO)	1,076,196	946,055
Corporate obligations	111,153	109,157
Total FVTOCI	<u>1,187,349</u>	<u>1,055,212</u>
Total Investment	<u>1,270,349</u>	<u>1,176,212</u>

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 2020, based on the portfolio held at the beginning and end of each month without the effect of change in fair value was 2.21% (2.34% - 31 December 2019).

The investment revaluation reserve of \$52,853 in the statement of financial position as of 31 December 2020 (\$15,337 – 31 December 2019) is composed of the unrealized gain on FV of investments measured at FVTOCI and its credit loss allowance.

The estimated fair value and amortized cost of the investments by contractual maturity as of 31 December 2020 and 2019 are as follows (in \$'000):

	<b>2020</b>		<b>2019</b>	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in less than one year	281,738	279,744	186,036	186,132
Due in one to five years	722,655	687,398	776,153	764,089
Due more than five years	265,956	251,265	214,023	210,688
<b>TOTAL</b>	<b>1,270,349</b>	<b>1,218,407</b>	<b>1,176,212</b>	<b>1,160,909</b>

#### *Fair Value Disclosure*

The fair value of the investments as of 31 December 2020 and 2019 are as follows (in \$'000):

	<b>2020</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Certificates of Deposits	83,000	-	83,000	-
Government-related-entity or GGO	1,076,196	1,045,104	31,092	-
Corporate obligations	111,153	111,153	-	-
	<b>2019</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
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	-	-

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.

For the years ended 31 December 2020 and 2019, there were no inter-level transfers.

#### *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):

	<u>2020</u>	<u>2019</u>
Balance at beginning of the year	34	17
Loss allowance recognized in profit or loss under impairment losses during the year on:		
Assets originated	70	14
Reversals	(1)	(2)
Change in credit risk	<u>808</u>	<u>5</u>
	<u>877</u>	<u>17</u>
Balance at end of the year	<u><u>911</u></u>	<u><u>34</u></u>

During the year, all transactions are classified to Stage 1 and there are no transfers between stages.

#### *Accrued Interest Income*

The details of accrued interest income from investments as of 31 December 2020 and 2019 are as follows (in \$'000):

	<u>2020</u>	<u>2019</u>
FVTOCI	7,425	6,650
Certificates of Deposits	132	338
Time Deposits	-	204
Guarantee	<u>6</u>	<u>-</u>
TOTAL	<u><u>7,563</u></u>	<u><u>7,192</u></u>

#### **NOTE 6 – GUARANTEES**

As of 31 December 2020, CGIF has issued guarantees covering bonds denominated in Vietnamese Dong, Singapore Dollar, Thai Baht, Japanese Yen, Philippine Peso and Cambodian Riel. The total outstanding amount of the guarantees issued under the related bonds was \$2,308 million as of 31 December 2020 (\$2,090 million – 31 December 2019). The guarantees are inclusive of coupon payments. The USD guarantee obligation below is for a KHR issued bond where all payments will be in USD converted at a fixed exchange rate agreed at inception.

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

<b>31 December 2020</b>				
	Local Currency			USD Equivalent
	Principal	Coupon	Total Obligation	of Total Obligation
VND	14,338,000,000	6,055,675,743	20,393,675,743	881,812
SGD	695,000	112,964	807,964	607,583
THB	12,600,000	1,188,807	13,788,807	457,022
JPY	15,400,000	762,300	16,162,300	155,691
PHP	6,223,600	765,908	6,989,508	145,457
KHR	127,200,000	23,876,137	151,076,137	37,493
USD	19,670	3,570	23,240	23,240
				<u>2,308,298</u>

  

<b>31 December 2019</b>				
	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
				<u>2,090,350</u>

As of 31 December 2020, a guarantee liability of \$83.4 million (\$73.2 million - 31 December 2019) was reported on the Statement of Financial Position. As of 31 December 2020 and 2019, the reported liability is composed of the following (in '\$'000):

	<b>2020</b>	<b>2019</b>
Unamortized balance of present value of total guarantee fees	73,158	70,500
Allowance for ECL	10,223	2,704
<b>TOTAL</b>	<u>83,381</u>	<u>73,204</u>

The total amount of loss allowance for guarantee obligations determined through ECL amounted to \$32.0 million as of 31 December 2020 (\$7.8 million – 31 December 2019). The unamortized balance of guarantee liabilities is compared against the required ECL on a per instrument basis and the higher between the two will be reflected as the guarantee liability in the statement of financial position. The allowance for ECL on the above table represents the total differences between the higher ECL that was computed vs the unamortized balances of guarantee liabilities. As of 31 December 2020, there are two accounts in the portfolio that were classified into stage 2 (one – 31 December 2019).

The reported guarantee fee receivable of \$67.90 million represents the present value of the stream of total guarantee fees expected to be received for the guarantee outstanding as of 31 December 2020 (\$65.6 million – 31 December 2019) net of allowance for credit losses.

As of 31 December 2020 and 2019, 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. The carrying amount of guarantees approximates its fair value. 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 2020 and 2019 were summarized below:

	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range 2020</b>	<b>Range 2019</b>
Guarantee receivable	Discounted cash flows	Discount rates	1.35% to 9.70%	3.15% to 9.70%

There were no inter-level transfers during the year ended 31 December 2020 and 2019.

#### *Impairment Losses*

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

	<b>2020</b>	<b>2019</b>
Balance at beginning of the year	280	164
Loss allowance recognized in profit or loss under impairment losses during the year on:		
Assets originated	199	128
Reversals	(25)	(31)
Additions	935	19
	<u>1,109</u>	<u>116</u>
Balance at end of the year	<u>1,389</u>	<u>280</u>

As of 31 December 2020, there are two accounts in the portfolio that were classified into stage 2 (one – 31 December 2019).

#### **NOTE 7—LEASES**

CGIF recognized right of use- lease asset related to the office rental contract with ADB. This is initially measured at cost and is subsequently depreciated on a straight-line basis for two years. In December 2020, CGIF and ADB agreed to extend the lease contract upon expiry for 3 years ending 31 January 2024. Since the extension of lease term did not add the right to use a new underlying asset, it is not accounted for as a separate lease. Accordingly, the lease liability is remeasured on 31 December 2020 and a corresponding adjustment was made to the ROU Lease Asset.

The details of the amount presented in the Statement of Financial Position are as follows:

Cost	
1 January 2019	-
Addition	<u>317</u>
31 December 2019	317
Remeasurement	<u>496</u>
31 December 2020	<u>813</u>
Accumulated depreciation	

1 January 2019	-
Depreciation	<u>(145)</u>
31 December 2019	(145)
Depreciation	<u>(160)</u>
31 December 2020	<u>(305)</u>
NET Balance at 31 December 2020	<u>508</u>
NET Balance at 31 December 2019	<u>172</u>

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):

	<b>Office Furniture and Equipment</b>	<b>IT and Communications</b>	<b>Building Improvement</b>	<b>TOTAL</b>
<b>Cost</b>				
1 January 2019	296	266	5	567
Additions	56	83	-	139
Disposals	(3)	-	-	(3)
31 December 2019	349	349	5	703
Additions	10	35	-	45
Disposals	-	(5)	-	(5)
31 December 2020	359	379	5	743
<b>Accumulated Depreciation/Amortization</b>				
1 January 2019	(212)	(187)	(5)	(404)
Depreciation	(36)	(49)	-	(85)
Amortization	-	-	-	-
Disposals	3	-	-	3
31 December 2019	(245)	(236)	(5)	(486)
Depreciation	(29)	(52)	-	(81)
Amortization	-	-	-	-
Disposals	-	5	-	5
31 December 2020	(274)	(283)	(5)	(562)
NET, 31 December 2020	85	96	-	181
NET, 31 December 2019	104	113	-	217

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):

	<u>Information Systems Software</u>
Cost	
1 January 2019	970
Additions	2
Disposals	<u>-</u>
31 December 2019	972
Additions	10
Disposals	<u>(1)</u>
31 December 2020	<u>981</u>
Accumulated Depreciation/Amortization	
1 January 2019	(814)
Amortization	(128)
Disposals	<u>-</u>
31 December 2019	(942)
Amortization	(24)
Disposals	<u>1</u>
31 December 2020	<u>(965)</u>
NET, 31 December 2020	<u>16</u>
NET, 31 December 2019	<u>30</u>

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 \$1.09 million (\$0.97 million – 31 December 2019), recorded in other miscellaneous expense was accrued in other liabilities. ADB's administration fee is equivalent to 10 bps of contributions received. ADB's administration fee for 2020 will be settled subsequently in May 2021. Key management personnel total compensation of short-term employee benefits for 31 December 2020 amounted to \$3.21 million (\$2.88 million – 31 December 2019).

## 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 2020 and 2019 are as follows (in \$'000):

	<u>2020</u>	<u>2019</u>
Authorized capital (12,000 shares)	1,200,000	1,200,000
Subscribed	1,149,000	1,149,000
Unsubscribed	51,000	51,000
Total authorized capital	<u>1,200,000</u>	<u>1,200,000</u>
Subscribed capital comprises:		
Amounts received	1,102,200	1,077,600
Amounts not yet due	46,800	71,400
Total subscribed capital	<u>1,149,000</u>	<u>1,149,000</u>

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 2020 and 2019 are as follows (in \$'000 except for number of shares):

<b>Contributor</b>	<b>31 December 2020</b>			
	<b>No. of shares</b>	<b>Subscribed</b>	<b>Amount received</b>	<b>Amount not yet received</b>
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	1,900	-
	<u>1,120</u>	<u>112,000</u>	<u>89,000</u>	<u>23,000</u>
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	147,600	23,800
	<u>8,570</u>	<u>857,000</u>	<u>833,200</u>	<u>23,800</u>
Total	<u>11,490</u>	<u>1,149,000</u>	<u>1,102,200</u>	<u>46,800</u>
<b>Contributor</b>	<b>31 December 2019</b>			
	<b>No. of shares</b>	<b>Subscribed</b>	<b>Amount received</b>	<b>Amount not yet received</b>
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
	<u>1,120</u>	<u>112,000</u>	<u>88,200</u>	<u>23,800</u>



Contributor	31 December 2019			
	No. of shares	Subscribed	Amount received	Amount not yet received
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

#### NOTE 14— RESERVE

The allocation to Reserve of the 2019 net income in retained earnings was approved by the Contributors at the 19 May 2020 Meeting of Contributors, per Resolution No. 2020-A-03.

#### NOTE 15— INTEREST INCOME

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

	2020	2019
FVTOCI	24,634	21,747
Time Deposits	593	2,473
Guarantee	2,477	1,594
Certificates of Deposits	1,141	339
Others	7	24
	28,852	26,177

#### NOTE 16— MISCELLANEOUS INCOME

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

## NOTE 17— ADMINISTRATIVE AND OPERATIONAL EXPENSE

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

	<u>2020</u>	<u>2019</u>
Staff Related Expenses	7,543	6,771
Financial and Legal Services	687	1,444
Short Term Staff Consultants	424	890
Business Travel	29	363
Recruitment Expense	9	335
Depreciation and Amortization – Fixed Assets	104	213
Depreciation – ROU Assets	159	145
MOC and BOD Expenses	12	185
Others	391	476
	<u>9,358</u>	<u>10,822</u>

## NOTE 18— REINSURANCE

In 1 October 2016, CGIF has entered into a quota share reinsurance treaty with a consortium of reinsurers. The reinsurance treaty was annually renewed to cover 1-year period. As of December 2020, a new treaty was signed to cover 2021 guarantees.

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.

The commission from reinsurance reported in the statement of profit and loss represents the commission income of 27.5% for the premium ceded and a profit commission on the annual profit derived from all the fees ceded under a 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— SUBSEQUENT EVENTS

CGIF received capital injection of \$3 million from Indonesia last 5 January 2021 raising the capital to \$1,105.2 million. In addition, on 19 February 2021, Indonesia subscribed to 90 additional shares amounting to \$9 million under the second stage of capital increase.

CGIF's management recognizes the potential impact of the political unrest in Myanmar on CGIF's credit guarantee portfolio. CGIF's lone Myanmar-based account, currently classified under Stage 2 and placed under stringent monitoring by the management, may be adversely affected by this situation. The magnitude of impact of the unrest on CGIF's financials is contingent on the duration and magnitude of the socio-economic-political instability that remains uncertain as at date of this report.