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THE NEW DEVELOPMENT BANK

Independent Auditor's Report and Financial Statements
for the period from 3 July 2015 (the effective date of the Ag
on the New Development Bank) to 31 December 2016
(Prepared in accordance with International Financial
Reporting Standards)

THE NEW DEVELOPMENT BANK

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD FROM 3 JULY 2015 TO 31 DECEMBER 2016

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF GOVERNORS OF THE NEW DEVELOPMENT BANK

Opinion

We have audited the financial statements of the New Development Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period from 3 July 2015 (the effective date of the Agreement of the New Development Bank) to 31 December 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the period from 3 July 2015 (the effective date of the Agreement of the New Development Bank) to 31 December 2016 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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management of the Bank is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Responsibilities of Management and the Board of Governors for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the 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, the management is responsible for assessing the Bank'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 the management either intends to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Board of Governors are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 judgment and maintain professional skepticism 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the 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 Bank'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 Bank 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.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

We communicate with the Board of Governors 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 Tohmatsu Certified Public Accountants LLP

Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Shanghai, PRC

1 April 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD FROM 3 JULY 2015 TO 31 DECEMBER 2016
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	Notes	From 3 July 2015 to 31 December 2016 USD'000
Interest income	7	28,244
Interest expense	7	(5,979)
Net interest income	7	22,265
Net gains on financial instruments at fair value through profit or loss	8	2,486
Other operating income		-
Total other income		2,486
Staff costs	9	(11,259)
Foreign exchange losses		(2,399)
Other operating expenses	10	(6,690)
Operating profit for the period		4,403
Unwinding of interest on the paid-in capital receivables	12	223,304
Profit for the period		227,707
Total comprehensive income for the period		227,707

THE NEW DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	Notes	As at 31 December 2016 USD'000
Assets		
Cash and cash equivalents	11	347,816
Due from banks other than cash and cash equivalents		2,284,894
Paid-in capital receivables	12	7,401,019
Property and equipment	13	476
Intangible assets	14	38
Other assets	15	19,447
Total assets		10,053,690
Liabilities		
Derivative financial liabilities	16	43,969
Financial liabilities designated at fair value through profit or loss	17	403,064
Other liabilities	18	1,235
Total liabilities		448,268
Equity		
Paid-in capital	19	10,000,000
Other reserves	20	(398,981)
Retained earnings		4,403
Total equity		9,605,422
Total equity and liabilities		10,053,690

The financial statements on pages 4 to 34 were approved and authorised for issue by the Management and the Board of Governors on 1 April 2017 and signed on behalf by:

President

Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 3 JULY 2015 TO 31 DECEMBER 2016
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	Paid-in capital USD'000	Other reserves USD'000	Retained earnings USD'000	Total USD'000
Operating profit for the period	-	-	4,403	4,403
Unwinding of interest on paid-in capital receivables for the period	-	-	223,304	223,304
Total comprehensive income for the period	-	-	227,707	227,707
Capital subscriptions	10,000,000	-	-	10,000,000
Impact on discounting of paid-in capital receivables (Note 12)	-	(622,285)	-	(622,285)
Recycling of unwinding of interest arising from paid-in capital receivables (Note 20)	-	223,304	(223,304)	-
As at 31 December 2016	10,000,000	(398,981)	4,403	9,605,422

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 3 JULY 2015 TO 31 DECEMBER 2016
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	From 3 July 2015 to 31 December 2016 USD'000
OPERATING ACTIVITIES	
Profit	227,707
Adjustments for:	
Interest expenses	5,979
Depreciation and amortisation	8
Realized (gains)/losses on financial instruments	(1)
Unrealized (gains)/losses on financial instruments	(3,023)
Bond issuance expenses	681
Unwinding of interest on paid-in capital receivables	(223,304)
Operating cash flows before changes in operating assets and liabilities	8,047
Net increase in due from banks	(2,284,894)
Net increase in other assets and receivables	(23,381)
Net increase in other liabilities	1,235
NET CASH USED IN OPERATING ACTIVITIES	(2,298,993)
INVESTING ACTIVITIES	
Proceeds on disposal of debt instruments held at fair value	1,441
Purchases of debt instruments held at fair value	(1,440)
Purchase of property and equipment, intangible assets	(522)
NET CASH USED IN INVESTING ACTIVITIES	(521)
FINANCING ACTIVITIES	
Paid-in capital received	2,200,000
Proceeds from issue of bonds, net of costs	447,330
NET CASH FROM FINANCING ACTIVITIES	2,647,330
NET INCREASE IN CASH AND CASH EQUIVALENTS	347,816
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	347,816

1. GENERAL INFORMATION

The New Development Bank (the "Bank") was established upon the Agreement on the New Development Bank (the "Agreement") signed on 15 July 2014 by the Government of the Federative Republic of Brazil ("Brazil"), the Russian Federation ("Russia"), the Republic of India ("India"), the People's Republic of China ("China") and the Republic of South Africa ("South Africa"), collectively the "BRICS" countries or "founding members". The Agreement entered into force on 3 July 2015 according to the notification endorsed by Brazil in its capacity as depositary. The Bank has its headquarters in Shanghai, the People's Republic of China.

The initial authorised capital of the Bank is USD 100 billion and the initial subscribed capital of the Bank is USD 50 billion according to the Agreement. Each founding member shall initially subscribe to 100,000 shares, which total USD 10 billion; of which 20,000 shares correspond to paid-in capital and 80,000 shares correspond to callable shares. The contribution of the amount initially subscribed by each founding member to the paid-in capital shall be made in dollars and in 7 installments pursuant to the Agreement.

The purpose of the Bank is to mobilise resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development.

As at 31 December 2016, the Bank had 24 employees including the President, 4 Vice-Presidents and 19 staff members. Additionally, there were 34 consultants/secondees working for the Bank on a short-term appointment basis.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the financial statements, the Bank has consistently applied International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and the related Interpretations ('IFRICs') (herein collectively referred to as the "IFRSs") issued by the International Accounting Standards Board ("IASB") which are effective for the accounting period.

The Bank has elected to early adopt the following new IFRSs that have been issued by the IASB but not yet effective:

IFRSs

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]

[1] Effective for annual periods beginning on or after 1 January 2018

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

IFRS 9 Financial Instruments

The management of the Bank considered that the early adoption of IFRS 9 mainly affected the classification and measurement of the Bank's financial assets and financial liabilities, impairment methodology as at 31 December 2016 compared with those entities applying IAS 39-Financial instruments: Recognition and Measurement ("IAS 39").

Key requirements of IFRS 9 that are relevant to the Bank are:

- All recognised financial assets that are within the scope of IAS are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss ("FVTPL"), IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

IFRS 15-Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract (s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The early adoption of IFRS 15 has no material impact on the disclosures of the amounts recognised in the Bank's financial statements for the current accounting period due to the limited business developed at the beginning stage.

The Bank has not early adopted the following new or revised IFRSs which are relevant to the Bank that have been issued but not yet effective:

IFRSs

IFRS 16	Leases[2]
Amendments to IAS 7–Statement of Cash Flows	Disclosure Initiative[3]

[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2017

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

IFRS 16 Leases - continued

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst 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 IFRS 16.

As at 31 December 2016, the Bank had non-cancellable operating lease commitments of USD 84,000 as disclosed in note 21. The Bank anticipated that the application of IFRS 16 is unlikely to have a significant impact on the Bank's Financial Statements.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Bank's financing activities.

As at 31 December 2016, the Bank's financing activities involved a bond issuance as disclosed in note 17. The Bank considered it sufficient to enable users to evaluate the Bank's financing operation.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Basis of preparation

The Bank presents the financial statements for the period from 3 July 2015 (The effective date of the Agreement on the New Development Bank) to 31 December 2016.

The financial statements have been prepared on the historical cost basis except for certain financial instruments and in accordance with the accounting policies set out below which are in conformity with IFRSs. These policies have been consistently applied throughout the period.

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Basis of preparation - continued

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 at 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 a liability, the Bank 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. Fair value for measurement and/or disclosure purposes in the Financial Statements is determined on such a basis, except for leasing transactions that are within the scope of IAS-17:Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS-36:Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised 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, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Interest income and expense

Interest income and expense are recognised in profit or loss for interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (including a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (but does not consider future credit losses). The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Property and equipment

The Bank's property and equipment mainly comprises of vehicles, IT equipment and appliances.

The assets purchased are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Bank and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is recognised so as to write off the cost of items of property and equipment over their estimated useful lives after taking into account their estimated residual values, using the straight-line method. The Bank starts depreciating an item of property and equipment in the next month of its acquisition.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

The estimated residual value rates and useful lives of each class of property and equipment are as follows:

Classes	Estimated residual value rates	Useful lives
IT equipment	0%	5 years
Appliance	0%	5 years
Furniture	0%	5 years
Vehicle	16%-50%	4-7years
Others	0%	5 years

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

The estimated useful lives of each class of intangible assets are as follows:

IT software	3 - 5 years

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments

The Bank applied the classification and measurement requirements for financial instruments under IFRS 9. The Bank's financial instruments mainly comprise due from banks, derivative financial liabilities and bond issued designated at fair value through profit or loss as at 31 December 2016.

Classification of financial instruments

The Bank classified its financial assets under IFRS 9, into the following measurement categories:

- those to be measured at FVTPL; and
- those to be measured at amortised cost.

The classification depends on the Bank's business model for managing financial assets and the contractual terms of the financial assets cash flows.

The Bank classified its financial liabilities as liabilities at FVTPL, liabilities at amortised cost or derivative liabilities. Bonds issued in 2016 were designated as liabilities at FVTPL for the purpose of minimising the mismatch of profit or loss arisen from the derivative contracts entered.

Derivative financial instruments

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and price risk, including interest rate swaps and stock index futures. Further details of derivative financial instruments are disclosed in Note 16.

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank primarily entered into derivative contracts for its bonds issued that were paired with swaps to convert the issuance proceeds into the currency and interest rate structure sought by the Bank. Notwithstanding the purpose for achieving economic hedge, the Bank opted not to apply hedge accounting for any derivative contracts entered into in the financial year ended 31 December 2016.

Impairment of financial assets

IFRS 9 requires recognition of expected credit losses ("ECL") on the financial assets accounted for at amortised cost. Expected credit losses of a financial asset should be measured in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments – continued

Impairment of financial assets – continued

The Bank applies a three-stage approach to measuring expected credit loss on financial assets accounted for at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised;

ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised;

iii) Stage 3: Lifetime ECL – credit impaired

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. For financial assets that are credit impaired, a lifetime ECL is recognized and interest revenue is calculated by applying the effective interest rate to the amortised cost rather than the gross carrying amount.

The Bank assesses, at each report date, whether there is objective evidence that a financial asset or a portfolio of financial assets that are measured at FVTPL, are impaired.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities at FVTPL are recognised initially at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss. All other financial assets and financial liabilities are recognised initially at fair value plus or minus directly attributable transaction costs.

Upon initial recognition, financial instruments may be designated as FVTPL. Restrictions are placed on the use of the designated fair value option and the classification can only be used either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (i.e. eliminates an accounting mismatch') that would otherwise arise from measuring financial assets or liabilities on different bases;

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments – continued

Recognition and derecognition of financial instruments – continued

- a group of financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

The Bank applies the fair value measurement option to the bonds issued in 2016. This option is applied where an accounting mismatch is significantly eliminated or reduced that would occur if the liability was measured on another basis.

Where liabilities are designated at FVTPL, they are initially recognized at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and the movement in the fair value attributable to changes in the Bank's own credit quality is presented in other comprehensive income and the remaining change in the fair value of the financial liability is presented in profit or loss.

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers its rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. The Bank derecognises financial liabilities when the Bank's obligations are discharged, cancelled or expired.

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when the Bank has a legal right to offset the amounts and intends to settle on a net basis or to realize the assets and settle the liability simultaneously.

Employee benefits

In the accounting period in which employees provide services, the Bank recognises the salary and benefits incurred and estimates employee benefits as a liability, with a corresponding charge to the profit or loss for the current period. The Bank will revisit the accounting treatment of Staff Retirement Plan ("SRP") and Post Retirement Insurance Plan ("PRP") upon the finalisation of the relevant contracts.

Paid-in capital

In accordance with the Agreement, the Bank has authorised capital and subscribed capital that is further divided into paid-in shares and callable shares. The Bank's share capital is denominated in USD.

Where shares have been issued on terms that provide the Bank rights to receive cash or another financial asset on a specified future date, the Bank recognises the financial asset for the amount of receivables.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Taxation

The Bank enjoys tax exemption policy within the territory of mainland China according to Article 9 of the Agreement Between the New Development Bank and the Government of the People's Republic of China regarding the Headquarters of the New Development Bank in Shanghai, PRC ("China").

The Bank shall be also immune from all taxation, restrictions and customs duties for the transfers, operations and transactions it carries out pursuant to the Agreement that entered into force on 3 July 2015.

Cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Bank's short-term, highly liquid investments that are readily convertible to known amounts of cash within three months and are subject to an insignificant risk of changes in value.

Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Foreign currencies

The financial statements of the Bank are presented in the currency of the primary economic environment in which the Bank operates (its functional currency). USD is the functional currency of the Bank and the presentation currency of the financial statements.

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (USD) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

4. KEY ACCOUNTING ESTIMATES AND JUDGEMENTS APPLIED BY MANAGEMENT

In the application of the Bank's accounting policies, which are described in Note 3, the management of the Bank is required to make estimates 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. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Valuation of derivative contracts and debts designated as fair value through profit or loss

Fair values are derived primarily from discounted cash flow models using the swap rates commonly used by market participants for the underlying benchmark of the derivatives. These swap rates are published by the reputed financial data vendors like Bloomberg which is used for arriving at the forward rates and discount rates. The financial liabilities are measured at fair value through profit and loss. The valuation models are based on underlying observable market data and market accepted valuation techniques.

The Bank's analysis and method for determining the fair value of financial liabilities designated at fair value have been provided within the Fair Value of Financial Assets and Liabilities section of the report.

Paid-in capital receivables

The discounted cash flow model is used by the Bank to calculate the present value of paid-in capital receivable at initial recognition. In determining the discount rate of paid-in capital receivable, the Bank took into account various factors including the funding cost of similar instruments issued by similar institutions, instrument-specific risk profile. The cost of alternative funding sources of the Bank has been taken into consideration by referring to the Bank's credit rating and general market rates. Thus USD Libor yield curve is considered an appropriate discount rate that reflects the time value and credit risk of the receivables in question.

5. FINANCIAL RISK MANAGEMENT

(1) Overview

The Bank's operating activities expose it to a variety of financial risks. As a multilateral development bank, the Bank aims to safeguard its capital base by taking prudent approaches and following international practices in identifying, measuring, monitoring and mitigating financial risks.

The Bank has established various Board approved risk management policies in line with its Agreement which are designed to identify and analyse risks of particular categories, and to set up appropriate risk limits and controls. The Board of Directors sets out the risk management strategy and the risk tolerance level in different risk management policies. The senior management monitors related risk management parameters and tolerance through policies and procedures under the strategy approved by designated committees.

The main types of financial risks of the Bank are credit risk, liquidity risk and market risk which includes foreign exchange risk and interest rate risk.

(2) Credit risk

The Bank is committed to mobilising resources for infrastructure and sustainable development projects in BRICS and other emerging market economies and developing countries. The Bank will provide financial support through loans, guarantees, equity investment and other financial activities to fulfill this purpose. Any possibility of inability or unwillingness of borrowers or obligors to meet their financial obligation with the Bank leads to credit risk.

According to the nature of the Bank's business, the principal sources of credit risks are: (i) credit risk in its sovereign operations; (ii) credit risk in its non-sovereign operations; (iii) obligors credit risk in its treasury business.

The Bank mainly relies on external credit rating results from major international rating agencies to have an initial assessment of the credit quality of the treasury obligors. For sovereign and non-sovereign loans the Operations Division collects the latest information on borrowers and conducts a preliminary review as needed for arriving at the creditworthiness of the obligors. In cases where the loans are guaranteed by the Governments of the individual countries, the credit risk is assessed on the guarantor. The risk division of the bank monitors the overall credit risk profile of the Bank on a periodic basis.

A prudential credit risk limit structure facilitates the management of risks associated to the Bank's portfolio. Credit risk limits would apply to single countries, sectors, obligors and products.

5. FINANCIAL RISK MANAGEMENT - continued

(2) **Credit risk** - continued

The Bank can use an external rating, from global rating agencies, ie, Moody's, Standard and Poor's and Fitch. Apart from this the credit rating from the approved agency can also be used for the obligors who do not have a credit rating from above global rating agencies. In accordance with the Board approved policy, the Finance Committee of the Bank is authorised to approve the usage of such ratings. The Risk Division obtains the latest rating result of the obligors to measure credit risk profile of the Bank.

As at 31 December 2016, the Bank had signed a loan agreement, pending on the full compliance of conditions precedent for the first drawdown. The Bank had deposits with other banks that are subject to credit risk.

The table below represents an analysis of the credit quality of financial assets that are neither past due nor impaired, based on the following grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- from global or approved local rating agency.
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- from global or approved local rating agency.
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ up to but not including defaulted or impaired.

Credit Exposure by Risk	Due from banks As at 31 December 2016 USD'000
Senior investment grade	2,284,894
Investment grade	-
Sub-investment grade	-
Total	2,284,894

These deposits are placed with highly rated banks in mainland China and Hong Kong. The bank reviewed and concluded that the probability of loss from these deposits is remote at the inception of each transition.

There had been no significant increase in credit risk since initial recognition and no significant ECL associated with the amounts due from banks for the year ended 31 December 2016.

5. FINANCIAL RISK MANAGEMENT - continued

(2) Credit risk - continued

Credit risk on derivatives

The bank has entered into derivative transactions for the purpose of achieving economic hedge of currency and interest rate risk associated with the Bond issued by the bank. The bank chose counterparties with high credit rating in mainland China and Hong Kong and entered ISDA agreement with them. Under the ISDA master agreement, if a default of counterparty occurs all contracts with the counterparty will be terminated. At any point of time the maximum exposure to credit risk is limited to the current fair value of instruments that are favorable to the Bank.

Risk Concentrations

The Bank manages concentration of risk through the limits on the basis of the individual counterparties and geographical region through the Board approved policy. The Board has permitted the Bank to adopt the concentration risk limits one year from operation. The bank would adopt diversifying its concentration risk over a period.

(3) Liquidity risk

The Bank's liquidity risk arises largely from the following two circumstances:

(i) Insufficient liquidity to settle obligations or to meet cash flow needs, including but not limited to the inability to maintain normal lending operations and to support public or private projects in a timely manner.

(ii) Inability to liquidate an investment at a reasonable price within the required period of time.

The Bank utilises a set of risk measurement tools for identifying, monitoring and controlling liquidity risk. The Bank maintains an appropriate mix of liquid assets as a source of liquidity for day-to-day operational needs, as well as for meeting emergency funding needs. The Bank also has the channel to borrow funds and issue debt securities in order to achieve its development mission and optimise liquidity. The Bank monitors liquidity risk through the liquidity risk ratios and indicators as prescribed in the liquidity risk management policy of the Bank.

5. FINANCIAL RISK MANAGEMENT - continued

(3) Liquidity risk - continued

The following table presents the cash flows associated with financial assets and financial liabilities. The balances in the tables will not necessarily agree to amounts presented on the statement of financial position as amounts incorporate cash flows on an undiscounted basis and therefore include both principal and associated future interest payments.

	Overdue/ On demand USD'000	Less than 1 month USD'000	1-3months USD'000	3-12months USD'000	1-5years USD'000	Over 5years USD'000	Total USD'000
Non-derivatives							
Cash and cash equivalents	253,348	52,522	42,172	-	-	-	348,042
Due from banks	203,505	436,926	-	1,685,434	-	-	2,325,865
Paid-in capital receivables	-	-	-	-	6,050,000	1,750,000	7,800,000
Other financial assets	46	-	-	-	-	-	46
Bonds issued	-	-	-	(12,781)	(419,343)	-	(432,124)
Other financial liabilities	(845)	-	-	-	-	-	(845)
Sub-total	456,054	489,448	42,172	1,672,653	5,630,657	1,750,000	10,040,984
Derivatives							
Net setting derivatives							
Interest rate swap – cash inflow	-	-	-	510	-	-	510
Interest rate swap – cash outflow	-	(573)	-	-	(3,543)	-	(4,116)
Gross setting derivatives							
Cross currency swap – cash inflow	-	-	-	9,877	336,497	-	346,374
Cross currency swap – cash outflow	-	(1,420)	-	(1,947)	(388,104)	-	(391,471)
Sub-total	-	(1,993)	-	8,440	(55,150)	-	(48,703)
Net	456,054	487,455	42,172	1,681,093	5,575,507	1,750,000	9,992,281

(4) Market risk

Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change, which results in profits or losses to the Bank. The Bank's market risk mainly consists of interest rate risk and exchange rate risk arising from the current portfolio. The Treasury and Portfolio Management Division of the Bank undertakes investment and hedging decisions within the guidelines set in Board approved polices.

Interest rate risk

Interest rate risk is defined as the risk of adverse impact on the Bank's financial position, including its income and economic value due to interest rate movements. The Bank's lending and investment activities may expose the Bank to interest rate risk. In addition, changes in the macro-economic environment impact significantly on the movement of interest rate curves for different currencies.

The Bank has limited tolerance towards interest rate risks. The primary strategy for management of interest rate risk is to match the interest rate sensitivity of individual currencies on both sides of the balance sheet. The tenor for which the interest is fixed on a financial instrument indicates the extent to which it is exposed to interest rate risk. Interest rate risk arises principally from the sensitivity associated with the net spread between the rate the Bank earns on its assets and the cost of borrowings which funds those assets and the sensitivity of the income earned from funding a portion of the Bank's assets with equity.

5. FINANCIAL RISK MANAGEMENT - continued

(4) **Market risk** - continued

Interest rate risk - continued

Accordingly, interest rate risk management aims to minimise mis-matches of structure and maturities (re-pricing) of interest rate sensitive assets and liabilities in the Bank's portfolios by adopting a match-funding principle complemented by duration gap analysis, interest rate repricing gap analysis and scenario analysis. The Bank aims to maintain the duration up to the approved limits by generating a stable overall net interest margin that is not overly sensitive to sharp changes in market interest rates, but adequately responsive to general market trends. An adequate match-funding refers to the principles of funding that has broadly the same characteristics as the corresponding loans in terms of interest rate and currency. Such minimisation of mis-matches protects the Bank's net interest margin from fluctuations in market interest rates. The bank also undertakes derivative transactions to hedge interest rate risk.

The Bank measures its interest rate exposure by using the interest rate re-pricing profile which are used to analyse the impact of interest rate change on its net interest income due to the re-pricing mismatch between assets, liabilities and off-balance sheet positions over a range of re-pricing buckets. Interest bearing assets and liabilities including off-balance sheet positions are slotted into their respective re-pricing time bands according to their earliest interest re-pricing dates. Off-balance sheet items refer to any instruments that are sensitive to changes in interest rates.

Interest Rate Sensitivity analysis

The objective of Net Interest Income (NII) sensitivity analysis is to utilise projected earnings simulations to forecast, and to measure and manage interest rate risk. NII analysis measures the sensitivity of net interest income earnings to changes in interest rates which involves comparing the projected 12-month net interest income earnings stream produced from both rising and falling interest rate scenarios, to the 12-month income result assuming a base interest rate forecast.

The sensitivity analysis is prepared assuming the interest bearing financial assets and liabilities outstanding at the end of each respective reporting periods were outstanding for the whole year. When reporting to the management on the interest rate risk, a 25 basis points increase or decrease in the relevant interest rates will be adopted for sensitivity analysis, when considering the reasonably possible change in interest rates. The impact of a change in interest rates on the last date of the reporting period is shown below.

	Impact on profit 2016 USD'000	Impact on equity 2016 USD'000
+25 basis points	3,881	-
- 25 basis points	(3,881)	-

Exchange Rate Risk

The exchange rate risk the Bank faces arises from the impact of exchange rate movements on net open positions in loans and treasury portfolio. Movements in currencies in which the Bank transacts, relatively to its functional currency (the U.S. dollar), can affect the Bank's results.

5. FINANCIAL RISK MANAGEMENT - continued

(4) **Market risk** - continued

Exchange rate risk - continued

The Bank aims at reducing or limiting exposure to the exchange rate risk arising from its normal course of business, while maximising its capacity to assume the risks of extending credit to clients (or borrowers) within its approved risk limits. The Bank uses the net exchange position limit to contain the exchange rate risk exposure.

The Bank seeks to match the currency of its assets with the currency of the corresponding funding source. The Bank uses currency derivative contracts to align the currency composition of its equity and liabilities to its asset.

Exchange Rate Sensitivity analysis

The following table shows the pre-tax impact of a change in foreign exchange rates as at 31 December 2016 assuming that all over variables remain constant:

	Impact on profit 2016 USD'000
10% increase	16
10% decrease	(16)

(5) **Capital management**

The Bank monitors its capital adequacy level within a Capital Management Framework ("CMF"), which seeks to ensure that Bank's capital is sufficient to cover the risks associated with its business. The CMF consists of three pillars that are Limitation on Operations, Equity-to-Loan Ratio and Capital Utilization Ratio.

The Bank sets early warning indicator for the above three pillars (95% for Limitation on Operations, 25% for Equity-to-Loan Ratio and 85% for Capital Utilization Ratio) and monitors the capital adequacy level on an on-going basis. Once the early warning indicator is hit, contingency actions should be triggered to bring the capital adequacy level to safe range.

As at 31 December 2016, the Bank had complied with its capital adequacy management policies.

The Bank has a capital structure in order to meet the capital management objective in a capital efficient manner. The initial subscribed capital shall be equally distributed amongst the founding members and the payment of the amount initially subscribed to the paid-in capital stock of the Bank shall be made in seven installments.

5. FINANCIAL RISK MANAGEMENT - continued

(5) **Capital management** - continued

According to Article 7d of the Agreement, an increase of the authorised and subscribed capital stock of the Bank, as well as the proportion between the paid in shares and the callable shares may be decided by the Board of Governors at such time and under such terms and conditions as it may deem advisable, by a special majority of the Board of Governors. In such case, each member shall have a reasonable opportunity to subscribe, under the conditions established in Article 8 and under such other conditions as the Board of Governors shall decide. No member, however, shall be obligated to subscribe to any part of such increased capital. The Board of Governors shall at intervals of not more than 5 years review the capital stock of the Bank per Article 7e of the Agreement.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Bank's financial instruments that are measured subsequent to initial recognition at fair value mainly included bonds designated at fair value and the derivatives as at 31 December 2016. Analysis of fair value disclosures uses a hierarchy that reflects the significant inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is classified is determined on the basis of the lowest level input that is significant to the fair value measurement. The fair value hierarchy is as below.

- Level 1: quoted prices in any active market for the financial assets or the liabilities.
- Level 2: inputs other than the quoted prices within Level 1 that are observable in the market and published by reputed agencies like Bloomberg and Reuters. These inputs are used for arriving at the fair value of the assets or the liabilities.
- Level 3: inputs for the financial asset or liability that are not based on the observable market data.

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 at the measurement date. The estimated fair values are based on relevant information available at the reporting date and involve judgement.

The Bank is of the opinion that there is no active market related to bonds issued in view of the low trading volume and frequency.

The fair value estimates are based on the following methodologies and assumptions:

The fair values of derivative assets and liabilities, including interest rate swaps and cross currency swaps are obtained from discounted cash flow models and other valuation techniques that are commonly used by market participants using observable inputs as appropriate in the market and published by reputed agencies like Bloomberg.

The fair value of bonds designated at fair value are measured by two parts that are hedged by the interest rate swaps and the cross currency swaps separately using market accepted valuation techniques. The techniques serve the purpose of tracking the value impact in respect of both interest rate and foreign exchange rate movement.

The Risk division of the Bank is responsible for the fair value measurement. External experts are engaged as required to review the valuation methodology.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES - continued

The table below shows the comparison of fair value of the financial liabilities and derivatives.

	Fair value measurement as at 31 December 2016			
	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial liabilities				
Derivatives	-	43,969	-	43,969
Financial liabilities designated at fair value	-	403,064	-	403,064
Total financial liabilities measured at fair value	-	447,033	-	447,033

There were no transfers between Level 1 and 2 during the period 3 July 2015 to 31 December 2016 for the Bank.

There was no third-party credit enhancements in the fair value measurement for financial liabilities designated at fair value as at 31 December 2016.

7. NET INTEREST INCOME

	For the period from 3 July 2015 to 31 December 2016 USD'000
Interest income	
Due from banks	24,311
Others	3,933
Total interest income	28,244
Interest expense	
Bonds issued	(5,979)
Total interest expense	(5,979)
Net interest income	22,265

8. NET GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the period from 3 July 2015 to 31 December 2016 USD'000
Derivatives	(48,440)
Bonds	50,926
Total	2,486

9. STAFF COSTS

	For the period from 3 July 2015 to 31 December 2016 USD'000
Salaries and allowances	10,860
Other benefits	399
Total	11,259

The Bank provides other benefits, as per their eligibility and applicability, to its staff members during their employment with the Bank. These include medical insurance, life insurance, accidental death & dismemberment insurance, children education assistance allowance, settlement & resettlement allowance, SRP and PRP.

The relevant contracts regarding SRP and PRP had not been signed and the detailed terms and conditions had not been determined as at 31 December 2016.

The Bank did not incur any salary expenses and other employee benefits for members of the Board of Governors and the Board of Directors except the President of the Bank for the period ended 31 December 2016. According to Article 11 of the Agreement, the Board of Governors shall determine the salary and terms of service contract of the President of the Bank.

10. OTHER OPERATING EXPENSES

	For the period from 3 July 2015 to 31 December 2016 USD'000
Office expenses	2,145
Professional fees	2,043
Travel expenses	1,355
Bond issuance costs	681
IT expenses	304
Hospitality expenses	107
Depreciation and amortisation	8
Others	47
Total	6,690

For the purpose of expediting the construction process of the Bank, the New Development Bank (Shanghai) Preparation and Management, LLC (the "Company") was incorporated in June 2015. The expenses of the Company that were attributed to the preparation and construction of the Bank were recorded as other receivables from the Bank. Upon the liquidation of the Company on 31 May 2016, the Bank accounted for those expenses as its own expenses.

11. CASH AND CASH EQUIVALENTS

	As at 31 December 2016 USD'000
Cash on hand	5
Demand deposit	253,343
Time deposit within three months	94,468
Total	347,816

12. PAID-IN CAPITAL RECEIVABLES

	As at 31 December 2016 USD'000
As at the effective date of the Agreement (note 1)	10,000,000
Less:	
Installment received during the period (note 2)	(2,200,000)
Total nominal amounts of receivables as at 31 December 2016	7,800,000
Less:	
Interest on paid-in capital receivables to be unwound in the future period (note 3)	(398,981)
As at 31 December 2016	7,401,019

Note 1: As disclosed in Note 19, the Bank established the rights to receive the initial subscribed paid-in capital of 100,000 shares, which total USD 10 billion upon the effective date of the Agreement. Each founding member shall initially and equally subscribe to 20,000 shares that correspond to paid in capital. The payment of the amount initially subscribed to the paid-in capital stock of the Bank shall be made in 7 installments. The first installment of paid-in capital shall be paid by each member within 6 months of the Agreement coming in force and the second installment shall become due 18 months from the date the Agreement came into force. The remaining 5 installments shall each become due successively one year from the date on which the preceding installment becomes due.

As at 31 December 2016, there were no overdue installments or paid-in capital receivable. The total amount of paid-in capital receivables that will become due over one year, on an undiscounted basis, is USD 7.8 billion.

Note 2: The installment received during the period comprised of a) USD 2 billion, being the first installment due within 6 months of the Agreement coming into force; b) USD 200 million, being part of the second installment received in advance in the year ended 31 December 2016.

Note 3: The discounting method is applied to derive the interest to be unwound over the installment period. The balance includes an initial discount of USD 622,285 thousand less USD 223,304 thousand of unwinding interest on the paid-in capital receivables during the period.

13. PROPERTY AND EQUIPMENT

	IT equipment USD'000	Appliance USD'000	Vehicle USD'000	Furniture USD'000	Others USD'000	Total USD'000
Cost as at 3 July 2015	-	-	-	-	-	-
Additions for the period	65	30	360	2	25	482
Cost at 31 December 2016	65	30	360	2	25	482
Accumulated depreciation as at 3 July 2015	-	-	-	-	-	-
Provided for the period	(3)	(3)	-	-	-	(6)
Accumulated depreciation as at 31 December 2016	(3)	(3)	-	-	-	(6)
Net book value as at 31 December 2016	62	27	360	2	25	476

14. INTANGIBLE ASSETS

	Computer software USD'000
Cost as at 3 July 2015	-
Additions for the period	40
Cost as at 31 December 2016	40
Accumulated amortisation as at 3 July 2015	-
Amortisation for the period	(2)
Accumulated amortisation as at 31 December 2016	(2)
Net book value as at 31 December 2016	38

15. OTHER ASSETS

	As at 31 December 2016 USD'000
Interest receivables	19,203
Other receivables	244
Total	19,447

16. DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2016	Notional Principal USD'000	Fair Value (Assets) USD'000	Fair Value (Liabilities) USD'000
Interest Rate Swap	90,132	-	3,388
Cross Currency Swap	359,396	-	40,581
Total	449,528	-	43,969

17. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2016 USD'000
Financial liabilities - bonds	403,064
Total	403,064

On 18 July 2016, the Bank issued the first phase of the five-year green bond with the maturity date of 19 July 2021. The interest is payable annually with a fixed coupon rate of 3.07%.

There has been no change in fair value of bonds attributable to changes in the Bank's credit risk for the period. The contractual amount to be paid at maturity of bonds is USD 383,430 thousand for the Bank.

18. OTHER LIABILITIES

	As at 31 December 2016 USD'000
Employee benefits payable	384
Accrued expenses	774
Others	77
Total	1,235

19. PAID-IN CAPITAL

	As at 31 December 2016	
	Number of shares	Amount in USD'000
Authorised share capital	1,000,000	100,000,000
Less:		
Unsubscribed by members	(500,000)	(50,000,000)
Total subscribed capital	500,000	50,000,000
Less: callable capital	(400,000)	(40,000,000)
Total paid-in capital	100,000	10,000,000

19. PAID-IN CAPITAL - continued

The Bank's capital stock is divided into paid-in shares and callable shares. Each share has a par value of USD100 thousand. According to the Agreement entered into force on 3 July 2015, the initial authorised capital of the Bank is USD 100 billion and the initial subscribed capital of the Bank is USD 50 billion. Each founding member shall initially subscribe to 100,000 shares, of which 80,000 shares shall be callable shares and 20,000 shares correspond to paid-in capital. Article 6 of the Agreement states that the voting power of each member shall be equal to the number of its subscribed shares in the capital stock of the Bank. In the event of any member failing to pay any part of the amount due in respect of its obligations in relation to paid-in shares under Article 7 of the Agreement, such member shall be unable, for so long as such failure continues, to exercise that percentage of its voting power that corresponds to the percentage which the amount due but unpaid bears to the total amount of paid-in shares subscribed to by that member in the capital stock of the Bank. Article 9 of the Agreement states that payment of the amount subscribed to the callable capital is subject to call only as and when required by the Bank to meet its obligations incurred on borrowing of funds for inclusion in its ordinary capital resources or guarantees chargeable to such resources. Article 42 states that the liability of all members arising from the subscriptions to the capital stock of the Bank and in respect to the depreciation of their currencies shall continue until all direct and contingent obligations shall have been discharged. All creditors holding direct claims shall be paid out of the assets of the Bank and then out of payments to the Bank on unpaid or callable subscriptions.

The Agreement allows for a member to withdraw from the Bank, in which case the Bank shall arrange for the repurchase of the former member's capital stock on such terms as are deemed appropriate in the circumstances. No member has ever withdrawn its membership.

Under the Agreement, payment for the paid-in shares of the initial capital stock subscribed to by founding members shall be made in dollars in 7 installments. The first payment was injected in the Bank's account on 24 December 2015.

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member is set out in the following table:

As at 31 December 2016	Total shares (Numbers)	Total subscribed capital (USD'000)	Callable capital (USD'000)	Paid-in capital (USD'000)
Brazil	100,000	10,000,000	8,000,000	2,000,000
Russia	100,000	10,000,000	8,000,000	2,000,000
India	100,000	10,000,000	8,000,000	2,000,000
China	100,000	10,000,000	8,000,000	2,000,000
South Africa	100,000	10,000,000	8,000,000	2,000,000
	500,000	50,000,000	40,000,000	10,000,000

20. OTHER RESERVES

	As at 31 December 2016 USD'000
Impact on discounting of paid-in capital receivables	(398,981)

Other reserves mainly represented the difference between the present value of paid-in capital receivables and the nominal amounts of subscribed paid-in capital arising from the installment payments of the subscribed paid-in capital, which was regarded as an equity transaction. The subsequent unwinding of interest on paid-in capital receivables for the period was recycled to other reserves from retained earnings immediately following the unwinding treatment in the relevant accounting period.

21. COMMITMENTS

1) Operating lease commitments

As at 31 December 2016, the Bank had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December 2016 USD'000
Within 1 year (inclusive)	84

2) Capital commitments

As at 31 December 2016, the Bank had no irrevocable capital expenditure commitments.

22. RELATED PARTY DISCLOSURES

(1) Name and relationship

Name of related parties	Relationship
The Federative Republic of Brazil	the Bank's shareholder
The Russian Federation	the Bank's shareholder
The Republic of India	the Bank's shareholder
The People's Republic of China	the Bank's shareholder
The Republic of South Africa	the Bank's shareholder

Per the agreement between the Bank and the Government of the People's Republic of China, the Headquarters Seat of the Bank and other relevant facilities as required for the Bank's operations were provided by the Government of the People's Republic of China for free for the period ended 31 December 2016.

22. RELATED PARTY DISCLOSURES - continued

(2) Details of key management personnel (KMP) of the Bank:

KMP are defined as those persons having authority and responsibility for planning directing and controlling the activities of the Bank, directly or indirectly, including the President and Vice Presidents.

The following persons were KMP of the Bank during the year ended 31 December 2016:

Name	Country	Position
K.V. Kamath	India	President
Paulo Nogueira Batista Jr.	Brazil	Vice President; Chief Risk Officer
Vladimir Kazbekov	Russia	Vice President; Chief Administrative Officer
Xian Zhu	China	Vice President; Chief Operations Officer
Leslie Maasdorp	South Africa	Vice President; Chief Financial Officer

(3) During the year, the remuneration of key management were as follows:

	For the period from 3 July 2015 to 31 December 2016 USD'000
Salary and allowance	3,521
Staff Retirement Plan	224
Post-Retirement Insurance Plan	38
Other short-term benefits	46
Total	3,829

23. SEGMENT INFORMATION

For the current accounting period, the Bank had a single reportable segment and had been evaluating the financial performance of the Bank as a whole.

24. SIGNIFICANT MATTER

In December 2016, a loan agreement was signed between the Bank and People's Republic of China ("Borrower") to finance the cost of Shanghai Lingang Distributed Solar Power Project ("Project Implementation Agency"). The Bank agreed to extend to the Borrower a loan of CNY 525 million. This agreement shall be effective from the date on which the conditions precedent for the first drawdown have been complied with by the Borrower.

As at 31 December 2016 and the reporting date, the conditions precedent for the first drawdown are yet to be complied with.

25. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Governors and management and authorised for issuance on 1 April 2017.

* * * End of the Financial Statements * * *