New Development Bank

Annual Report 2019

Investing for Innovation

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Investing for Innovation

This Annual Report sets out the progress made by the New Development Bank (NDB or the Bank) in 2019 in delivering on its mandate of mobilising resources for infrastructure and sustainable development projects to achieve growth and development.

NDB's operating landscape is characterised by ever-changing technological advancements that continuously bring new challenges as well as opportunities. It is within this context that the Bank, since its establishment, has been devising innovative approaches to meet the evolving development needs of its member countries, incorporating speed and technology in everything it does.

Message from the President

Mr. K.V. Kamath

NDB deeply regrets the loss of life and economic and social distress being caused by the ongoing COVID-19 pandemic. The Bank stands in solidarity with its members and the global community in the fight against this pandemic and is devoting a significant portion of its human and financial resources to assist its members. In April 2020, NDB disbursed a USD 1 billion emergency loan to China and approved an emergency loan for the same amount to India. The Bank is also in discussions with Brazil and South Africa for emergency loans of similar sizes. The Bank is gearing up to significantly increase its lending to a total of up to USD 10 billion in COVID-19 related assistance to its members to deal with the immediate health impacts as well as medium-term economic recovery challenges. I believe that together we can overcome this enormous unanticipated global shock and continue to move forward on the path of progress.

Now in the fifth year of its operations, the Bank is a fully functioning institution in all respects. It is also an institution that has the strategic agility and strong execution capability to shift gears and refocus as required by emerging challenges and opportunities as well as the evolving environment, taking into account its conservative risk appetite. It has been an exciting time setting up a brand-new institution from the ground up. I would like to use this message to share with the Bank's stakeholders a brief recap of the journey thus far, as well as the opportunities for the institution going forward.

"Now in the fifth year of its operations, the Bank is a fully functioning institution in all respects. It is also an institution that has the strategic agility and strong execution capability to shift gears and refocus as required by emerging challenges and opportunities as well as the evolving environment."

> The Bank has embraced the concept of 'impact investing' in building its project portfolio. The strategic objective is to channel our funds to those projects that generate positive economic, social and environmental benefits for society.

Our strategy to set up the Bank was underpinned by the vision of our founding members as enshrined in our Articles of Agreement (AoA). Our founders envisaged that NDB should be a new-age multilateral development bank (MDB) that would be fit-for-purpose for the changes that the 21st century would continue to bring, exhibit sustainability as its core value, and demonstrate the ability of developing countries to stand on their own feet. Our founders asked us to embark on a journey to change the way business was being done in the development finance world.

I believe that in many ways, we have succeeded in doing so. By now, we have developed a sustainable long-term value proposition for our member countries. We have ingrained several critical institutional elements, such as emphasis on developing young talent in our human capital, leveraging modern technology, building internal capacity to work at speed while maintaining quality, avoiding the traditional donor-donee mindset, establishing robust systems, policies and processes, and setting the right platforms for achieving our short, medium and long-term goals.

We have also approved projects across a wider spectrum of infrastructure sectors. Starting with renewable energy projects, the Bank's financing now covers transport, urban development, complex environmental rehabilitation and restoration, and social infrastructure. The Bank's move up the learning curve has been made possible by our focus on developing in-house skills in project origination and in project appraisal. On-the-job learning, regular training, and mentoring provided by senior staff have equipped our younger staff with skills relevant to the Bank's evolving work.

We have also been able to deliver on our promise to do things at speed, while relying on country systems for environmental and social aspects of projects with a risk-based approach. In consonance with our growing emphasis on contributing to the achievement of the Sustainable Development Goals (SDGs), the Bank has embraced the concept of "impact investing" in building its project portfolio. The strategic objective is to channel our funds to those projects that generate positive economic, social and environmental benefits for society.

Local currency financing is at the heart of the Bank's long-term growth strategy, as it improves the creditworthiness of projects where the cash flows are in domestic currency. This enables the Bank to meet demand for infrastructure financing irrespective of macro-economic volatility. Our local currency operations have continued to gain pace as we aim to achieve our own growth aspirations while delivering value to our stakeholders.

Another key differentiator for the Bank has been its internal information technology (IT) architecture. We firmly believe that large-scale use of technology that is fit-for-purpose, plug-and-play, good value-for-money and leverages new developments is the key to bringing agility to the Bank. We recognise technology's ability to provide a multiplier effect to human resources and to dramatically improve operational

> We will continue to innovate and support all our initiatives with appropriate resources – financial, technical and human.

USD 7.2 bn

Total project approvals in 2019

USD 15 bn

Cumulative project approvals as at December 31, 2019

efficiency. Therefore, since inception, we have made investments in developing a robust, cloud-based IT platform for the Bank. It is heartening to note that in 2019 we became the first MDB to run fully on the cloud at a fraction of the IT costs of our peers.

NDB's performance in 2019 is a further testament to its progress on this journey. In 2019, we approved 22 projects amounting to USD 7.2 billion, including our first equity investment, in Brazil. Our cumulative project approvals crossed USD 15 billion in the fifth year of operation, a considerably shorter period of time than it took some other established MDBs to reach this milestone.

In 2019, NDB approved loans denominated in Euro, Renminbi (RMB), South African Rand and Swiss Franc – moving beyond the traditional USD funding and signalling the Bank's ability to meet our clients' expectations. The Bank issued its second local currency bond and raised RMB 3 billion in the China Interbank Bond Market. The issuance saw considerable interest from overseas investors and witnessed an oversubscription three times its offer book. The Bank also established borrowing programmes in South Africa and in Russia and is in the process of setting up programmes in Brazil and in India.

We are now a fully-fledged operating bank in terms of people, processes, platforms and products. We have demonstrated our capabilities across functions, geographies and sectors. All our business verticals have internal capacity to sustain robust growth in the coming year and the period thereafter.

With the Bank's proposed COVID-19 pandemic-related assistance, incremental approvals in 2020 are likely to be above USD 10 billion. In future years, with the pandemic hopefully behind us, we expect to continue to sustain similar levels of annual project-related financing. We will continue to innovate and support all our initiatives with appropriate resources – financial, technical and human.

In the coming decade, technology-led accelerated changes will challenge the existing paradigm of the development finance business. Our operating landscape will fundamentally change with technology disruptions, altering the scope, size and complexities involved in financing future infrastructure requirements.

Take for example the requirements for efficient transport systems. The ongoing innovations in network connectivity and autonomous vehicles, along with widespread access to smartphones, cheap mobile data storage cost and unprecedented increase in processing power of devices are changing the entire service, payment and delivery models. It is now clear that artificial intelligence (AI), with performance doubling every 3.4 months for a given price, will underpin technological disruption in the immediate future. Newer technologies that leverage AI, such as predictive analysis, real-time vehicle tracking and control, virtual service aggregators, vehicle-to-vehicle communication and self-driving cars, will challenge the existing norms. At the same time, there is electrification of the

transportation sector, which is currently responsible for a quarter of direct carbon dioxide (CO_2) emissions from fuel combustion. Projections show that by 2030, nearly a third of all vehicles sold will be electric. All of this in conjunction will make transport systems safer, efficient and greener. These newer systems also have the potential to leapfrog as well as integrate quickly with the existing structures. On the flip side, they will disrupt the demand for automobiles and traditional business models like auto insurance.

Similarly, in many parts of the world, renewable energy is now cheaper to produce than energy from fossil fuels. As time progresses, a combination of energy from renewable sources along with affordable and enhanced battery storage, will cause a fundamental shift in energy use and will necessitate a rethink of traditional utility businesses.

Given the scale of opportunity, new technologies will unlock massive economic value in our member countries. Demand for smart infrastructure should create self-sustaining growth momentum and opportunities for NDB. We are well positioned to leverage the emerging and untapped opportunities in smart infrastructure financing.

In addition to taking advantage of technology, it is also equally important that we crowd-in other investors, particularly from the private sector. Currently, over USD 10 trillion of assets worldwide are earning negative returns. To put things in perspective, the combined gross domestic product (GDP) of our five member countries is about USD 21 trillion. As an inexorably ageing global population increasingly demands retirement investments with higher yields, long-term positive returns offered by well-structured infrastructure projects should be attractive to global investors. To achieve this, however, MDBs need to innovate and design new financial products that are appropriate for a broad spectrum of investors. The creation of robust secondary markets for MDB-financed projects in our member countries will help meet their demand. MDBs could act as originators of projects, play their important role in de-risking such projects, and offer these projects to private investors, thereby enabling better use of their capital with leaner balance sheets.

For NDB itself, there are interesting financial innovations that can be adopted to mobilise equity-like instruments from the markets. This will require, most critically, the support of our members. I believe that adoption of these innovations can help the Bank grow its assets to nearly USD 120 billion with just USD 10 billion of initial capital provided by the founding members. This would place the Bank in the top tier of MDBs globally and, I believe, could be a vision of the Bank for the future.

Mr. K.V. Kamath
President of NDB

2019 in Numbers[1]

Total approvals[2]

	Within the year ended Dec 31, 2019	Cumulative as at Dec 31, 2019
Number of total approvals	**22**	53[3]
Amount of total approvals	**USD 7,192 m**	USD 15,252 m
Number of cancellations	**1**[4]	2[5]
Amount of cancellations	**USD 69 m**	USD 319 m
Number of approvals net of cancellations as at December 31, 2019		51
Amount of approvals net of cancellations as at December 31, 2019		USD 14,933 m

Approvals by key area of operation

	Within the year ended Dec 31, 2019		Cumulative as at Dec 31, 2019	
	Number	USD m	Number	USD m
Clean energy	**5**	**1,589**	14	3,519
Transport infrastructure	**6**	**2,322**	13	4,421
Irrigation, water resource management and sanitation	**3**	**658**	7	2,080
Urban development	**5**	**1,523**	10	2,653
Environmental efficiency	**1**	**500**	4	1,200
Social infrastructure	**1**	**500**	2	960
Multi-theme[6]	**1**	**100**	1	100
Total	**22**	**7,192**	51	14,933

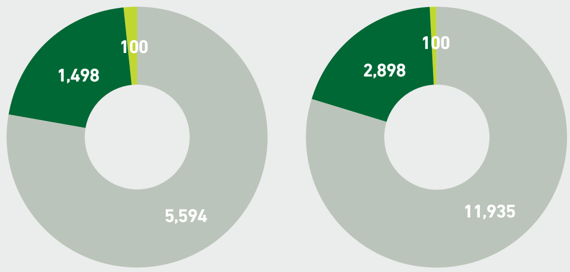
Disbursements

	Within the year ended Dec 31, 2019	Cumulative as at Dec 31, 2019
Amount of disbursements	**USD 915 m**	USD 1,539 m[7]
Number of operations to which disbursements were made	**23**	26

1 Unless otherwise stated, all amounts related to approvals and disbursements in this report have been translated using exchange rates as at the end of the relevant reporting period. As a result, the incremental amount for 2019 may deviate from the difference between the cumulative amounts as at end of 2019 and 2018.
2 Total approvals include cancelled projects. Unless otherwise stated, discussions on NDB's operations are based on the Bank's portfolio net of cancellations.
3 The two loans to Eurasian Development Bank (EDB) and International Investment Bank (IIB) for on-lending to the Nord-Hydro project in Russia are counted as two separate approvals in this Annual Report, instead of one as in the previous reports.
4 Relates to the USD 69 million loan to the Russian Federation for the Ufa Eastern Exit Project, which was approved in 2017 and cancelled in 2019.

Approvals by type of operation

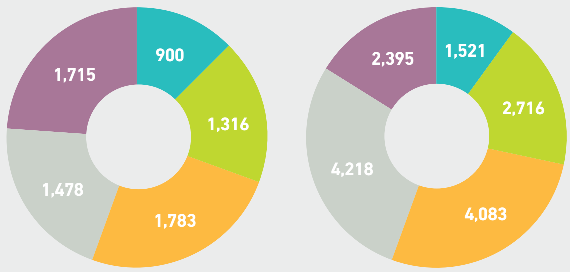
Within the year ended Dec 31, 2019 USD m	Cumulative as at Dec 31, 2019 USD m



- Sovereign loans
- Non-sovereign loans
- Equity investments

Approvals by country

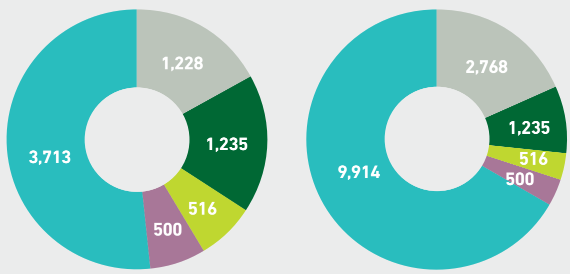
Within the year ended Dec 31, 2019 USD m	Cumulative as at Dec 31, 2019 USD m



- Brazil
- Russia
- India
- China
- South Africa

Approvals by currency[8]

Within the year ended Dec 31, 2019 USD m	Cumulative as at Dec 31, 2019 USD m



- RMB
- ZAR
- CHF
- EUR
- USD

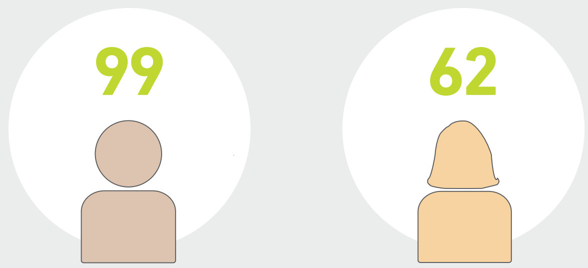
Bond issuances[9]

	Within the year ended Dec 31, 2019	Cumulative as at Dec 31, 2019
Number of bonds issued	1	2
Amount of bonds issued	**RMB 3 bn**	RMB 6 bn

Credit ratings[10] (as at December 31, 2019)

	Credit Rating	Outlook
International		
Standard & Poor's	**AA+**	Stable
Fitch	**AA+**	Stable
Japan Credit Rating Agency	**AAA**	Stable
Domestic		
China Chengxin International Credit Rating	**AAA**	Stable
China Lianhe Credit Rating	**AAA**	Stable

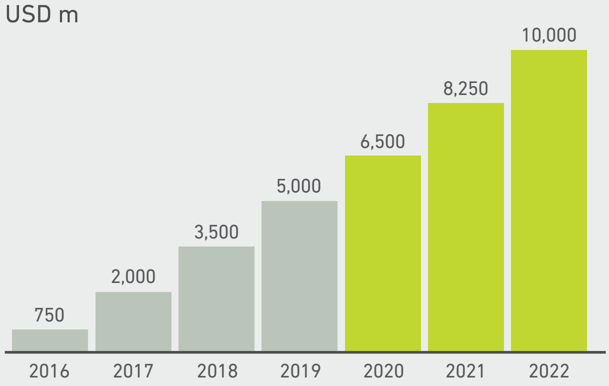
Employees by gender (as at December 31)



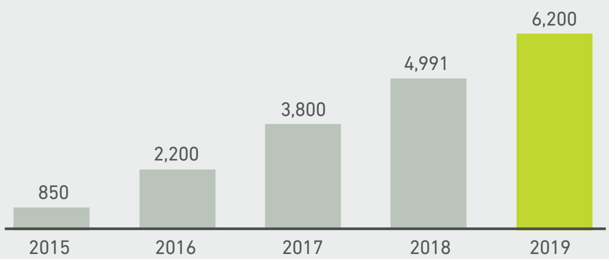
Male employees
2019: 99 or 61%
2018: 88 or 61%

Female employees
2019: 62 or 39%
2018: 56 or 39%

Cumulative paid-in capital contributions due (as at January 3)
USD m

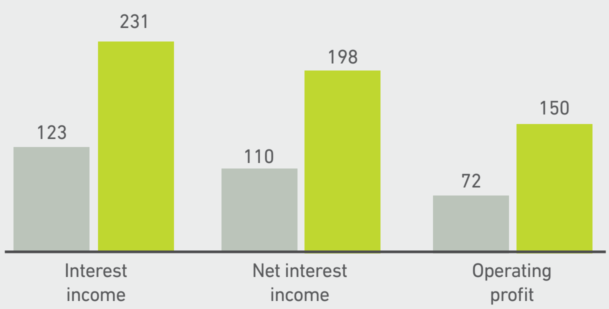


Cumulative paid-in capital contributions received[11] (as at December 31)
USD m



Financial performance
USD m

- For the year ended December 31, 2018
- For the year ended December 31, 2019

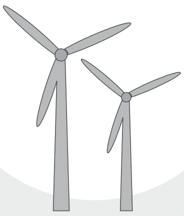


5 Relates to the project cancelled in 2019 and the USD 250 million sovereign-guaranteed loan to Canara Bank (India) for its Renewable Energy Financing Scheme, which was approved in 2016 and cancelled in 2018.
6 Relates to the USD 100 million equity investment in a private equity fund, which will invest in multiple sub-projects in various key areas of NDB's operation.
7 Includes repayments.
8 The USD 300 million loan to Vale S.A. includes a USD 50 million portion which could be delivered in RMB. This USD 50 million portion is included in the amount of approvals in RMB and excluded from the amount of approvals in USD.
9 On April 3, 2020, NDB issued a RMB 5 billion Coronavirus Combating Bond in the China Interbank Bond Market.
10 On January 23, 2020, NDB obtained a AAA international credit rating from Analytical Credit Rating Agency.
11 Subsequently, NDB received USD 300 million from India on January 2, 2020, relating to the fifth instalment of paid-in capital contribution, which was due on January 3, 2020. The Bank also received USD 35 million from Russia on January 10, 2020, and USD 350 million from China on March 2, 2020, as advance payments towards the sixth instalment of paid-in capital contribution due on January 3, 2021.

Highlights of expected development results of selected projects financed by NDB[12]

From projects approved within the year ended December 31, 2019[13]

970 MW

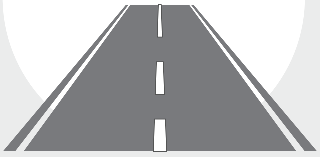


Renewable and clean energy generation capacity to be installed

2.4 million tons/year

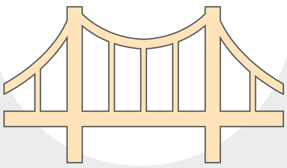
CO_2 emissions to be avoided

3,500 km



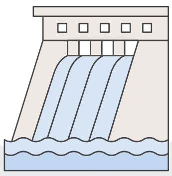
Roads to be built or upgraded

470



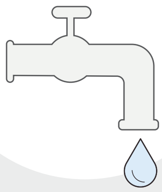
Bridges to be built or upgraded

2,300 million m^3



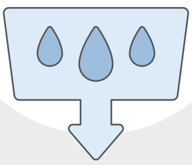
Water storage capacity to be created

159,000 m^3/day



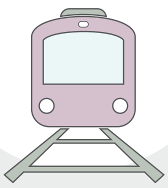
Drinking water supply capacity to be increased

3.4 million



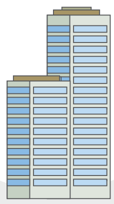
People to benefit from improved access to water and sanitation services

60 km



Metro and tram networks to be built

5



Cities to benefit from NDB's urban development projects

12 Expected development results are presented for selected projects that NDB financed in collaboration with partners, irrespective of the share of the Bank's financial contribution. The numbers are rounded, and are based on the information available at the time of approval.

13 See page 51 for additional information on expected development results from projects supported by NDB.

Overview

NDB is an international financial institution established by Brazil, Russia, India, China and South Africa (BRICS) to mobilise resources for infrastructure and sustainable development projects in BRICS and other emerging market economies and developing countries (EMDCs) for global growth and development.

In order to deliver on its mandate, the Bank continuously leverages technological capability, financial resources, human capital and partnerships. As one of the youngest institutions in the multilateral development banking industry and the first global MDB established only by EMDCs, NDB has the advantage of learning from past experience of its peers, and is well positioned to offer innovative solutions and incorporate leading practices into its operations.

Capital Structure

In accordance with the AoA, the initial authorised capital of NDB is USD 100 billion, of which USD 50 billion has been subscribed equally by the five founding members. The Bank's initial subscribed capital is composed of paid-in capital of USD 10 billion and callable capital of USD 40 billion. The voting power of each member is equal to the proportion of its subscribed shares in the capital stock of the Bank. Therefore, NDB has a unique governance structure, in which the five founding members have equal voting power and none of them has veto power over any matter.

Founding members have been making contributions to the paid-in capital in accordance with the seven-year payment schedule set out in the AoA. This reflects their strong commitment to NDB and high propensity to support the Bank in case of need. By the end of 2019, NDB had cumulatively received paid-in capital amounting to USD 6.2 billion.[14]

Shareholding structure of NDB (as at December 31, 2019)
%

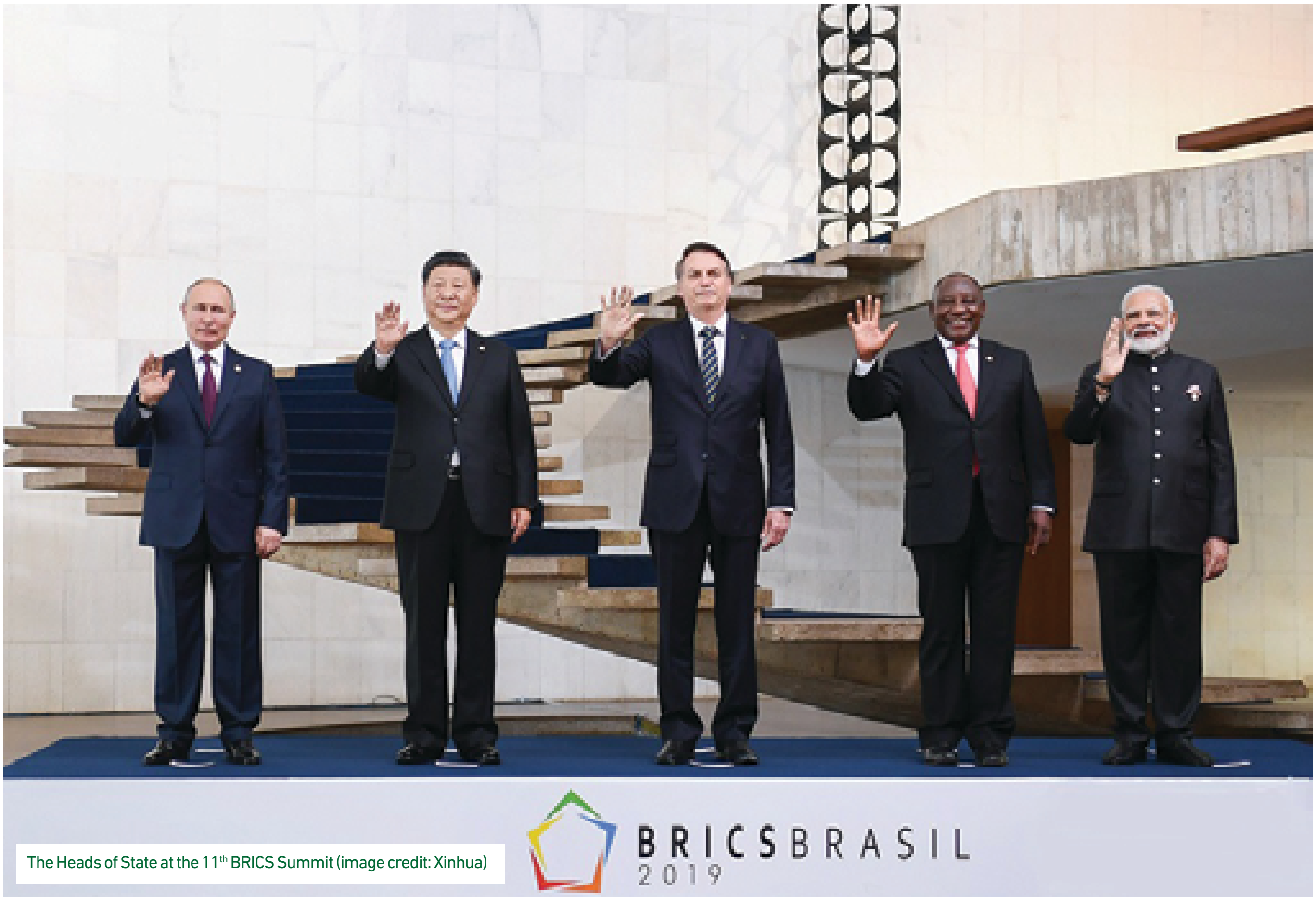
Country	%
Brazil	20
Russia	20
India	20
China	20
South Africa	20

14 Subsequently, NDB received USD 300 million from India on January 2, 2020, relating to the fifth instalment of paid-in capital contribution, which was due on January 3, 2020. The Bank also received USD 35 million from Russia on January 10, 2020, and USD 350 million from China on March 2, 2020, as advance payments towards the sixth instalment of paid-in capital contribution due on January 3, 2021.

Membership

Membership of NDB is open to members of the United Nations. Expansion of membership to include other EMDCs as well as advanced countries is a strategic focus of the Bank, and will be conducted with a view to ensuring geographic diversity as well as a reasonable mix of countries of different sizes and at different stages of development. Recognising this, in April 2017, the Board of Governors (BoG) approved the Terms, Conditions and Procedures for the Admission of New Members.

At the 11th BRICS Summit held in November 2019 in Brasília, Brazil, Leaders of the five founding members stated in the Brasília Declaration that they "look forward to the Board of Governors concluding the preparatory work with the aim of taking timely and considered decisions on the expansion of the membership in due course".



The Heads of State at the 11th BRICS Summit (image credit: Xinhua)

NDB in 2019

NDB continued to mobilise resources for high quality infrastructure and sustainable development projects, with USD 7.2 billion in approvals in 2019, a 53% increase over the year before.

2019 was an exciting year for NDB. Thanks to the strong commitment and continuous support of its founding members, clear guidance and effective oversight of Governors and Directors, leadership of the Management[15] and the steadfast dedication of staff, the Bank has successfully consolidated itself as a dynamic, innovative and reliable partner, providing long-lasting contributions to the development efforts of its member countries.

In 2019, NDB continued to mobilise resources for high-quality infrastructure and sustainable development projects in an agile and efficient way. The Bank is now reaching a steady state of operations, with USD 7.2 billion in approvals in 2019, a 53% increase over the year before, while annual disbursements increased by 52% compared to the previous year. Significant progress has also been made in terms of portfolio composition. The share of non-sovereign operations, including equity investments, increased from 18% to 20% of cumulative approvals over the year, and the share of financing denominated in local currencies rose from 20% to 27% over the same period. The Bank has also introduced new operational modalities, such as multi-currency loans and equity investments, and improved the balance in distribution of operations across member countries.

Recognising NDB's strong business and financial profile as well as prudent risk management framework, Japan Credit Rating Agency assigned the Bank a AAA rating, and both Standard & Poor's and Fitch reaffirmed the Bank's AA+ ratings.[16] Leveraging its high credit ratings, the Bank has made

South African Deputy President Mr. David Mabuza's visit to NDB on November 1, 2019


NDB's new headquarters under construction

significant strides in implementing its funding strategy. As detailed in the Treasury section of this report,[17] NDB issued an additional RMB-denominated bond in 2019. In order to further diversify its funding sources, the Bank registered its debut ZAR bond programme in South Africa and its RUB bond programme in Russia. Later in the year, NDB launched its Euro Medium Term Note (EMTN) programme, opening the way for the Bank to establish a presence in international capital markets. Furthermore, to enhance its liquidity management, NDB established its debut Euro Commercial Paper (ECP) programme in April 2019.

During 2019, NDB enhanced the monitoring and reporting of its strategy implementation and strengthened its development results framework, with the objective to better measure and account for its impact. In line with its General Strategy: 2017–2021, the Bank has been paying due regard to the alignment of its operations with the SDGs as well as the goals of the Paris Agreement on Climate Change (Paris Agreement). NDB also continued to develop and implement its partnership agreements and increased the number of operations with other developmental institutions through on-lending, co-financing and parallel financing.

As a 21st century institution, NDB embeds technology into all aspects of its activities. Continuous investments in cloud-based IT solutions have contributed to the integration of the Bank's core systems, paving the way for NDB to become a fully digitalised institution.


Investment in cloud-based IT solutions

15 NDB's Management team is composed of the President and four Vice Presidents.
16 On January 23, 2020, Analytical Credit Rating Agency also assigned a AAA international credit rating to NDB.
17 See pages 53 to 58.

Key Events in 2019

NDB Fourth Annual Meeting

The Fourth Annual Meeting of NDB was held in Cape Town, South Africa, from March 31 to April 2, 2019 under the theme of Successful Partnerships for Sustainable Development.

During the Annual Meeting, the Governor for Brazil was elected as Chairperson of the BoG, to serve in this position until the Fifth Annual Meeting of the BoG in 2020. Governors noted the achievements of the Bank, including expansion of its business, significant growth of loan portfolio as well as the ramp-up of NDB's borrowings. The BoG also provided guidance for the Bank's future work, promoting alignment of NDB's operations with member countries' development goals.

The Annual Meeting brought together senior government officials from BRICS countries, leaders of multilateral and national development institutions, distinguished scholars, prominent commercial bankers, captains of industry and representatives of civil society organisations. Three seminars were held during the meeting under the following themes:

- Leveraging International Financial Infrastructure for Sustainable Development;
- Financing Sustainable Infrastructure; and
- Sustainable Infrastructure for a Better Future.

Official group photograph at NDB Fourth Annual Meeting

Professor Paul Romer, 2018 Nobel Laureate, at NDB Fourth Annual Meeting

President Kamath at NDB Fourth Annual Meeting

President Kamath reported to the Heads of State during the 11th BRICS Summit

A meeting with civil society organisations was held to discuss topics related to NDB's institutional development and operations, including the Bank's approach to assessing and monitoring the development impact of its operations. In addition, several knowledge events were also held on the sidelines of the Annual Meeting, focusing on the following topics:

- Legal and Regulatory Aspects of Private-Public Partnerships for Sustainable Development Projects;
- Building Sustainable Credit History; and
- Partnerships and Sustainable Support for Municipal Infrastructure.

NDB participation at the 11th BRICS Summit

NDB participated actively in the 11th BRICS Summit held in Brasília, Brazil, on November 13 and 14, 2019.

During the official dialogue session of BRICS Leaders' with NDB and the BRICS Business Council, President Kamath reported to the Heads of State on the progress made by the Bank over the past year and shared the strategic vision for the Bank going forward. President Kamath highlighted NDB's gradual transformation from an incipient institution into a fully functioning MDB in all respects, capable of effectively leveraging capital for development purposes as envisioned by the founding members.

The Summit also provided an opportunity for NDB to hold close interactions with the BRICS business community as well as with Brazilian partners and counterparts in infrastructure and sustainable development. The Ministries of Economy and Foreign Affairs of Brazil co-hosted a seminar with NDB on the sidelines of the Summit to discuss the Bank's role in financing projects in the country. The discussions highlighted NDB's unique value proposition for working across the public and private sectors, while focusing on borrowers' needs. Among the distinguished panellists were the Minister of Economy of Brazil and NDB Governor, Mr. Paulo Guedes, the President of the Brazilian Development Bank (BNDES), Mr. Gustavo Montezano, President Kamath, and other members of NDB's Management.

At the BRICS Summit, President Kamath highlighted NDB's gradual transformation from an incipient institution into a fully functioning MDB in all respects.

NDB interacted closely with the BRICS business community during the 11th BRICS Summit

The Brasília Declaration

Signed by the Leaders of BRICS countries in Brasília, Brazil, on November 14, 2019, at the conclusion of the 11th BRICS Summit, the Brasília Declaration outlines the outcomes of recent cooperation between the BRICS countries and reaffirms the group's fundamental commitment to the principles of sovereignty, mutual respect and equality, as well as to the shared goal of building a peaceful, stable and prosperous world.

In the Declaration, the Heads of State noted with pride the fifth anniversary of the signing of NDB's AoA in Fortaleza and acknowledged the progress made towards expanding the Bank's membership. They welcomed the establishment of NDB's regional offices, as well as the mid-term review of NDB's General Strategy: 2017–2021. The Declaration also noted with appreciation the role of NDB in infrastructure and sustainable development financing, stressing the need for enhanced efforts to continue building a strong, balanced and high-quality portfolio of projects.

The Heads of State noted with pride the fifth anniversary of the signing of NDB's AoA in Fortaleza and acknowledged the progress made towards expanding the Bank's membership.

Governance

NDB functions under the strategic guidance of the BoG, while oversight is provided by the Board of Directors (BoD). The Bank is managed operationally by the President and four Vice Presidents.

NDB's lean governance structure supports the Bank's commitment to conduct its business in a prudent manner, with the highest standards of corporate governance, operational effectiveness and oversight. At the same time, it allows the Bank to operate in an environment of rapidly changing technological innovation, responding in a flexible, agile and cost-effective manner to the evolving development needs of its member countries.

Board of Governors

The BoG is the highest decision-making authority of NDB, consisting of one Governor at ministerial level and one alternate appointed by each member country. The BoG is responsible for deciding on the increase or decrease of the capital stock, approving the annual accounts, determining the distribution of net income, electing the President, admitting new members, approving the General Strategy of the Bank every five years, authorising the conclusion of general agreements for cooperation with other international organisations, among other duties.

BoG meetings take place at least annually. The Fourth Annual Meeting of the BoG was held in Cape Town, South Africa, on April 1, 2019. The current Chairperson of the BoG is the Governor for Brazil, Mr. Paulo Guedes.

Mr. Paulo Guedes [18]
Governor of NDB
Chairperson of the BoG
starting April 1, 2019[19]

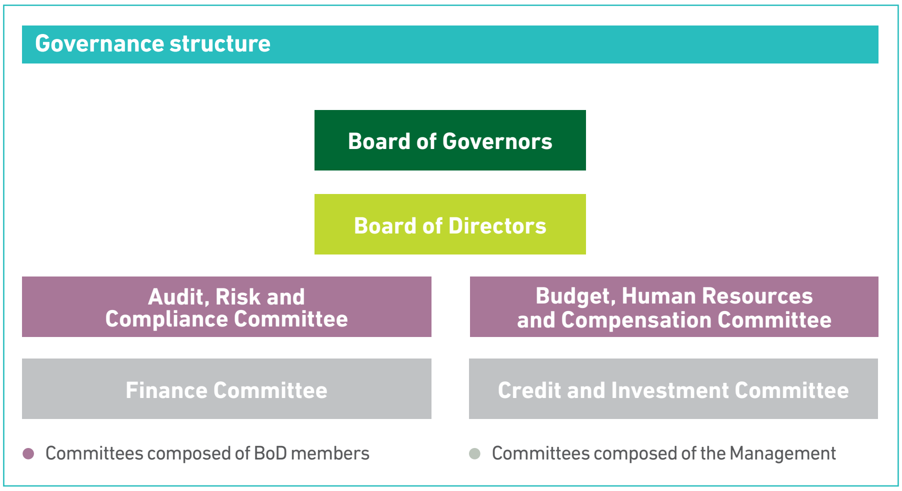
Minister of Economy
Federative Republic of Brazil

Mr. Guedes has been the Minister of Economy of Brazil since January 2019. He has a career in both the Brazilian financial market and education sector. Mr. Guedes was founder of Banco Pactual, which became the largest Brazilian investment bank, and the Chief Executive Officer and majority shareholder of Instituto Brasileiro de Mercado de Capitais, one of Brazil's leading business schools. Mr. Guedes was also the founder of Abril Educação and the think tank Instituto Millenium. Mr. Guedes was a professor at the Pontifical Catholic University of Rio de Janeiro, Getúlio Vargas Foundation and the Institute of Pure and Applied Mathematics.

Mr. Anton Siluanov
Governor of NDB

Minister of Finance
Russian Federation

Mr. Siluanov was appointed as Finance Minister of Russia from September 2011 to December 2011 and was reappointed in May 2012. Mr. Siluanov has a long history of working at the Russian Finance Ministry, starting as an economist in August 1985 to becoming a member of the Board on March 22, 2001. From July 2003 to December 2011, Mr. Siluanov served in various positions including Director of the Department of Intergovernmental Fiscal Relations at the Finance Ministry; Deputy Finance Minister of the Russian Federation; and Acting Finance Minister of the Russian Federation.



Mrs. Nirmala Sitharaman [20]
Governor of NDB

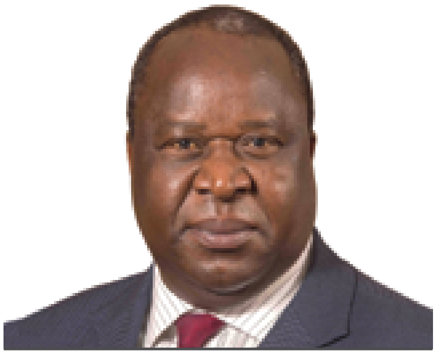
Minister of Finance
Republic of India

Mrs. Sitharaman has been Finance Minister of India since May 31, 2019. From 2003 to 2005, Mrs. Sitharaman served as a member of the National Commission for Women. She has been actively involved with the Bharatiya Janata Party since 2008, when she was invited to become a member of the party's National Executive. In 2014, Mrs. Sitharaman was inducted into the Council of Ministers and held the charge of Minister of State (Independent charge) for Commerce and Industry. On September 3, 2017, she became the first full-time woman Defence Minister of India.

Mr. Kun Liu
Governor of NDB

Minister of Finance
People's Republic of China

Mr. Liu has been Finance Minister of China since March 2018. Mr. Liu has extensive experience in fiscal and tax reform as well as fiscal policies. From 1988 to 1997, he was Deputy Director and then Director of the General Office of Guangdong Provincial Government. From 1997 to 2001, he was Deputy Director General of the General Office of Guangdong Provincial Government, and from 2001 to 2002, he served as Deputy Secretary General of Guangdong Provincial Government (Director General-level). From 2002 to 2010, Mr. Liu was Director General of the Finance Department of Guangdong Province. From July 2010 to May 2013, he was Deputy Governor of Guangdong Province and appointed as Vice Minister of the Ministry of Finance from May 2013 to December 2016. From December 2016 to March 2018, Mr. Liu served as Director of the Budgetary Affairs Commission of the National People's Congress Standing Committee, and also served as Deputy Chairman of the Financial and Economic Affairs Committee of the 12th National People's Congress.



Mr. Tito Mboweni
Governor of NDB
Chairperson of the BoG
until April 1, 2019

Minister of Finance
Republic of South Africa

Mr. Mboweni has been Finance Minister of South Africa since October 2018. Mr. Mboweni was the eighth Governor of the South African Reserve Bank from 1999 to 2009. Mr. Mboweni joined the Reserve Bank in July 1998 as Advisor to the Governor. Prior to this, Mr. Mboweni was Minister of Labour from May 1994 to July 1998 in President Nelson Mandela's cabinet. Prior to his appointment as Minister of Labour, he was Deputy Head of the Department of Economic Policy in the African National Congress. Mr. Mboweni also represented the African National Congress on several domestic and international platforms.

18 Mr. Paulo Guedes was appointed as the Governor for Brazil in January 2019 replacing Mr. Eduardo Refinetti Guardia.
19 Mr. Paulo Guedes was elected as the BoG Chairperson on April 1, 2019 and will hold this office until the end of the Fifth Annual Meeting of the BoG.
20 Mrs. Nirmala Sitharaman was appointed as the Governor for India in June 2019 replacing Mr. Arun Jaitley. Mr. Arun Jaitley passed away in August 2019. His contribution to NDB was invaluable, especially in the formative stages of setting up the Bank.

Board of Directors

The BoD is responsible for the conduct of the general operations of NDB, including decisions on business and country strategy, loans, guarantees, equity investments, borrowing, operational policies and procedures, technical assistance as well as budget review and approval. In addition to general operations of the Bank, the BoD provides strategic direction to the Management to achieve the Bank's organisational objectives and oversees the development of its operations.

Each of the founding members appoints one Director and one alternate for a term of two years. As per the AoA, Directors may be re-elected. The Chairperson of the BoD is appointed by the Directors for a period of four years. The Director for Russia, Mr. Sergei Storchak, was appointed as the Chairperson from July 21, 2019. The President is also a member of the BoD, but has no vote except for a deciding vote in case of a tie among the Directors.

The Bank's BoD functions as a non-resident body. This innovative format enables a swift, flexible and cost-effective decision-making process. According to the AoA, the BoD meets at least quarterly and, according to the Rules of Procedures of the Board of Directors, the BoD may convene meetings electronically as needed. In 2019, the BoD held five meetings, including four physical meetings and one videoconference. In line with best practice, NDB's Corporate Secretary reports directly to the BoD.

Ms. Yana Dumaresq[21]
Director of NDB

Assistant Deputy Minister for Foreign Trade and International Affairs, Ministry of Economy Federative Republic of Brazil

Ms. Dumaresq is the Assistant Deputy Minister for Foreign Trade and International Affairs, Ministry of Economy of Brazil from January 2019. She joined the Brazilian Civil Service in January 2009, at the former Ministry of Industry, Foreign Trade and Services, where she served as Deputy Minister (2018), Undersecretary of Strategy and Competitiveness (2016 to 2017), Chief of Staff (2015) and Chief Advisor (2010 to 2011). In the years of 2013 and 2014, Ms. Dumaresq joined the World Economic Forum's team in Geneva, as Associate Director for Latin America. Ms. Dumaresq has also a strong background in sustainable development. In this field, she served as Deputy Head of Brazil´s Office for the United Nations Conference on Sustainable Development and worked as a consultant for both bilateral and multilateral cooperation agencies.

Mr. Sergei Storchak
Director of NDB
Chairperson of the BoD

Deputy Minister of Finance Russian Federation

Mr. Storchak has been the Deputy Finance Minister of the Russian Federation since November 2005. Mr. Storchak served in the Soviet Army from November 1972 to November 1974. Mr. Storchak held various positions at the Institute of World Economy and Foreign Affairs of the Academy of Sciences of the Union of Soviet Socialist Republics (USSR) from August 1981 to November 1988. From December 1988 to October 2005, Mr. Storchak served in various positions in government and other international organisations, including the Second Secretary of the USSR Permanent Mission to the United Nations Office, Director of Division of the Foreign Credit and External Debt Department, Deputy Chairman of the Bank for Foreign Economic Affairs of the USSR and Director of the International Finance Relations, State Debt and State Financial Assets Department of the Finance Ministry of the Russian Federation.

Mr. K. Rajaraman
Director of NDB

Additional Secretary, Department of Economic Affairs, Ministry of Finance
Republic of India

Mr. Rajaraman was appointed as Additional Secretary, Investment and International Economic Relations in the Department of Economic Affairs, Ministry of Finance in September 2018. Mr. Rajaraman started his career as a Design Engineer in Bharat Heavy Electricals Limited, Trichy in 1986. After joining the Indian Administrative Service in 1989, Mr. Rajaraman has held administrative positions in the areas of Investment Promotion, Public Sector Undertakings, Industrial Infrastructure, Urban Transportation, VAT Administration, among others. Mr. Rajaraman was previously the Managing Director of Chennai Metro Railways for approximately four years, during its construction phase, Commissioner for Commercial Taxes in State Government of Tamil Nadu and Joint Secretary Expenditure in Government of India in the recent past.

Mr. Wencai Zhang[22]
Director of NDB

Director General, Department of International Economic and Financial Cooperation, Ministry of Finance
People's Republic of China

Mr. Zhang was appointed as the Director General of the Department of International Economic and Financial Cooperation, Ministry of Finance of China in August 2018 and also represents China as Alternate Governor at the International Fund for Agricultural Development and as Director at the Asian Infrastructure Investment Bank. Mr. Zhang has rich experience in the public sector. He joined the Ministry of Finance of China in 1989 and served in various senior capacities, including as the Director General of the Department of External Economic Cooperation from 2012 to 2013, and as the Deputy Director General for the International Department from 2004 to 2012, where he worked on various bilateral dialogues, multilateral initiatives and cooperation with international financial institutions, including the Strategic and Economic Dialogue between China and the US, the G20, the ASEAN+3, the Asia Pacific Economic Cooperation, the World Bank, and the Asian Development Bank (ADB). In the field of international financial institutions, Mr. Zhang served as Vice President of ADB from 2013 to 2018 and as Director for China at ADB from 2007 to 2009. From 1993 to 1996, he was Advisor to the Executive Director for China at the World Bank.

Mr. Enoch Godongwana[23]
Director of NDB

Head of the African National Congress' Economic Transformation Committee
Republic of South Africa

Mr. Godongwana is currently the Chair of the Development Bank of Southern Africa and the Head of the African National Congress' Economic Transformation Committee. Prior to this, he was the Deputy Minister of Economic Development from 2010 to 2012, and the Deputy Minister of Public Enterprises from 2009 to 2010. Mr. Godongwana was a member of Provincial Legislature in the Eastern Cape Provincial Government from 1994 to 2009 and a member of the Executive Council for the Eastern Cape Provincial Treasury, Economic Affairs, Environment and Tourism from 1994 to 1998 and from 1998 to 2004.

Mr. K.V. Kamath
Member of the BoD
and President of NDB

Mr. Kamath has over 40 years' experience in the banking sector, including project finance, credit and venture capital. Among his many roles, Mr. Kamath served as Managing Director and Chief Executive Officer and subsequently as non-executive Chairman of ICICI Bank and worked at ADB. He has also served as a board member of Schlumberger Ltd and as Chairman of Infosys Ltd., India's largest software company.

21 Ms. Yana Dumaresq was appointed as the Director for Brazil, effective from October 12, 2019, replacing Mr. Marcos Troyjo, who was appointed as the Director for Brazil in January 2019, replacing Mr. Marcello de Moura Estevão Filho.
22 Mr. Wencai Zhang was appointed as the Director for China in January 2019, replacing Mr. Shixin Chen.
23 Mr. Enoch Godongwana was appointed as the Director for South Africa in April 2019, replacing Mr. Dondo Mogajane.

Committees

NDB's processes are set up to ensure that all its activities are carefully and independently evaluated. According to the AoA, the BoD shall appoint any committee it deems advisable for carrying out the general operations of NDB. Consequently, the BoD has approved the establishment of four committees to assist it in discharging its oversight and decision-making responsibilities.

Audit, Risk and Compliance Committee (ARC Committee)

Chairperson
Mr. Enoch Godongwana, Director for South Africa

Composition
All members of the BoD

Meeting frequency
At least four times a year

Purpose
The ARC Committee assists the BoD to fulfil its corporate governance responsibilities including, among others, assessing the integrity of the financial statements and reporting procedures, reviewing reports from the internal and external auditors, ensuring the existence of adequate and effective internal controls and approving the risk management framework.

Duties undertaken
Among other matters, the following duties have been undertaken by the ARC Committee:

- The ARC Committee has reviewed the audited financial statements with the Management, including a discussion of the quality of the accounting principles as applied, and significant judgments affecting the Bank's financial statements.
- The independent auditors have discussed with the ARC Committee their judgments of the quality of those principles as applied and judgments referred to above under the circumstances.
- The members of the ARC Committee have discussed among themselves, without the Management or the independent auditors being present, the information disclosed to the ARC Committee as described above.
- The ARC Committee, in reliance on the review and discussions conducted with the Management and the independent auditors pursuant to the requirements above, believes that the Bank's financial statements are fairly presented in conformity with International Financial Reporting Standards (IFRSs) in all material respects.

In 2019, the ARC Committee held four meetings and has satisfied its responsibilities in compliance with its terms of reference.

Budget, Human Resources and Compensation Committee (BHRC Committee)

Chairperson

Mr. Wencai Zhang
Director for China

Composition

All members of the BoD

Meeting frequency

At least quarterly, or as needed

Purpose

The purpose of the BHRC Committee is to assess the approval of the budget and human resources and compensation-related activities.

In 2019, the BHRC Committee held four meetings and has satisfied its responsibilities in compliance with its terms of reference.

Credit and Investment Committee (CIC)

Chairperson

Mr. K.V. Kamath,
President of NDB

Composition

The President and the four Vice Presidents

Meeting frequency

Monthly, or as needed

Purpose

The purpose of the CIC is to assist the BoD in fulfilling its responsibilities regarding the credit and investment activities of the Bank and to make appropriate project recommendations to the BoD.

In 2019, the CIC held seven meetings and has satisfied its responsibilities in compliance with its terms of reference.

Finance Committee

Chairperson

Mr. K.V. Kamath,
President of NDB

Composition

The President and the four Vice Presidents

Meeting frequency

Monthly, or as needed

Purpose

The purpose of the Finance Committee is to provide oversight responsibility on financial and risk-related matters pertaining to operations and treasury. The committee is also responsible for the oversight of and recommendations to the BoD in the areas of financial policies and guidelines, financial operations including loan loss provisioning, asset and liability management and financial risk management.

In 2019, the Finance Committee held four meetings and has satisfied its responsibilities in compliance with its terms of reference.

Management

NDB's Management team is composed of the President and four Vice Presidents. In 2015, the BoG elected Mr. Kamath from India as the first President of NDB. The Vice Presidents, from each of the founding members except the country represented by the President, are appointed by the BoG, based on the recommendation of the President. The President and each Vice President shall serve for a non-renewable, five-year term, except for the first Vice Presidents, whose mandate shall be for six years.

Mr. K.V. Kamath
President

Mr. Kamath has over 40 years' experience in the banking sector, including project finance, credit and venture capital. Among his many roles, Mr. Kamath served as Managing Director and Chief Executive Officer and subsequently as non-executive Chairman of ICICI Bank and worked at ADB. He has also served as a board member of Schlumberger Ltd and as Chairman of Infosys Ltd., India's largest software company.

Mr. Sarquis José Buainain Sarquis
Vice President and
Chief Risk Officer

Mr. Sarquis has over 20 years of public sector experience. He has held several positions at the Ministry of External Relations in Brazil, including Head of International Economic Organisations and advisor on international finance, investment, trade and development. Before joining NDB, Mr. Sarquis served as Minister-Counsellor at the Embassy in Paris and Deputy Chief of Mission at the Brazilian Embassy in Tokyo. Mr. Sarquis has accumulated extensive experience in working with multilateral organisations, including the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), the World Bank Group, the World Trade Organization and the United Nations. He received his MSc and PhD in Economics from the London School of Economics and has researched, published and taught in the areas of macroeconomics, growth, trade and international finance.

Mr. Vladimir Kazbekov
Vice President and
Chief Administrative Officer

Mr. Kazbekov has over 20 years' experience in public sector and development finance. Before his appointment at NDB he served at Vnesheconombank – Russia's National Development Bank, as an executive and at the Russian Ministry of Foreign Affairs, as the Deputy Director of the Foreign Policy Department of the Presidential Executive Office of the Russian Federation.

Mr. Xian Zhu
Vice President and
Chief Operations Officer

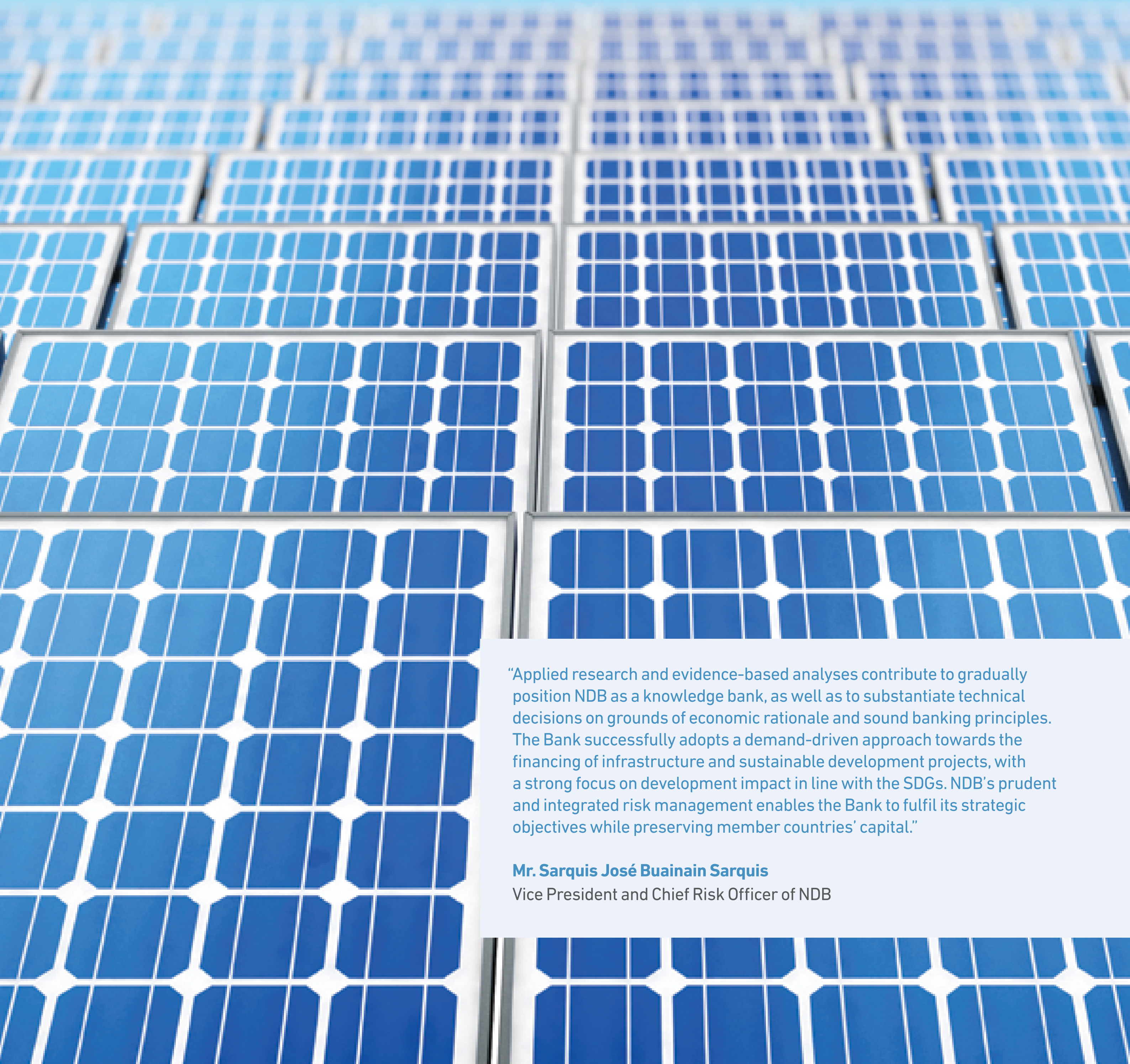
Mr. Zhu has over three decades of experience in senior management roles in the Chinese public sector and other MDBs. Before his appointment at NDB, Mr. Zhu served as Vice President and Chief Ethics Officer at the World Bank Group. Mr. Zhu has also held other positions in the World Bank Group, including Strategy and Operations Director for South Asia, Country Director for Bangladesh and Country Director for the Pacific Islands, Papua New Guinea and Timor-Leste.

Mr. Leslie Maasdorp
Vice President and
Chief Financial Officer

Mr. Maasdorp has over 25 years' experience in senior leadership roles in the private and public sectors in South Africa. In 1994, he was appointed special advisor to the Minister of Labour and in 1999 was appointed as Deputy Director General of the Department of Public Enterprises. Before joining NDB, Mr. Maasdorp served as President of Bank of America Merrill Lynch for Southern Africa and prior to that he served in a dual role as Vice Chairperson of Barclays Capital and ABSA Capital. He is a former International Adviser to Goldman Sachs.

Putian Pinghai Bay Offshore Wind Power Project in China

Operating Context and Strategy



"Applied research and evidence-based analyses contribute to gradually position NDB as a knowledge bank, as well as to substantiate technical decisions on grounds of economic rationale and sound banking principles. The Bank successfully adopts a demand-driven approach towards the financing of infrastructure and sustainable development projects, with a strong focus on development impact in line with the SDGs. NDB's prudent and integrated risk management enables the Bank to fulfil its strategic objectives while preserving member countries' capital."

Mr. Sarquis José Buainain Sarquis
Vice President and Chief Risk Officer of NDB

Operating Context

Economic growth softened globally

Global economic growth softened from 3.6% in 2018 to 2.9% in 2019, the lowest level since the global financial crisis of 2008–2009.[24] While low productivity growth and aging demographics have been posing structural constraints to potential output, the slowdown this year was further intensified by rising trade policy and other international uncertainties. Global trade volume growth decelerated from 3.7% in 2018 to 0.9% in 2019. Meanwhile, global manufacturing output has also been steadily decelerating from a growth of 3.4% in 2018 to 1.4% in 2019.[25]

The growth deceleration was broad-based across most major regions. GDP growth in the Euro Area slowed from 1.9% in 2018 to 1.2% in 2019, while growth in major advanced economies (G7) moderated from 2.0% in 2018 to 1.6% in 2019. Emerging and developing Asia remained the fastest-growing region in the world, but its expansion decelerated from 6.3% in 2018 to 5.5% in 2019. Growth in Latin America and the Caribbean decreased sharply from 1.1% in 2018 to 0.1% in 2019, while in the Middle East and Central Asia it slowed from 1.8% in 2018 to 1.2% in 2019. Finally, growth in Sub-Saharan Africa marginally decelerated from 3.3% to 3.1%.

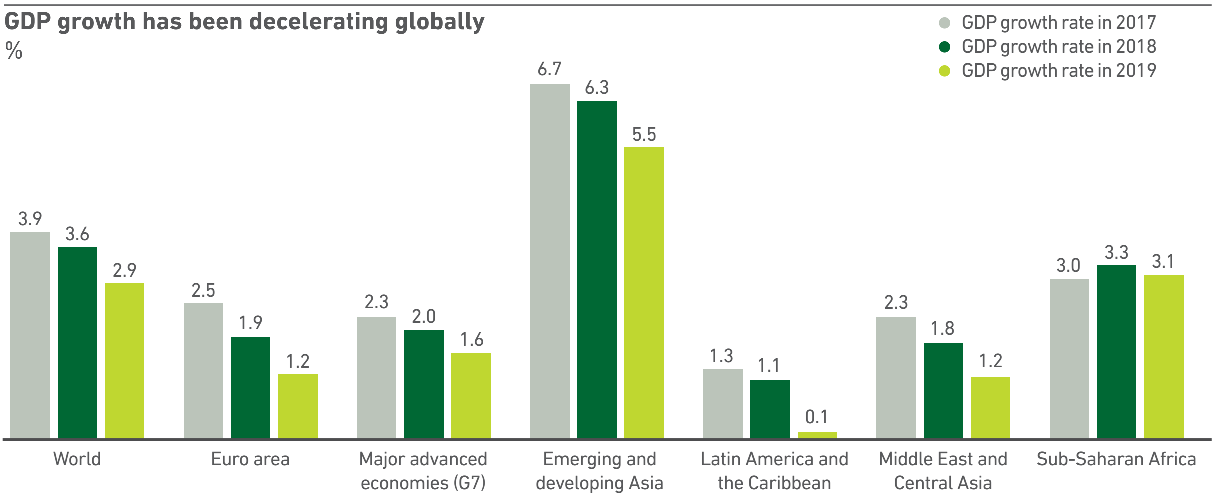
The global economy faced a dramatic shock caused by the COVID-19 pandemic after the closure of the 2019 financial year. Containment measures to curb the spread of the virus halted most economic activities, causing an immediate impact on the real economy and financial markets. Many economic activity and financial market indicators experienced a comparable or even larger decline in the first quarter of 2020 than during the global financial crisis of 2008–2009. The effects of the pandemic will propagate to the next quarters, further constraining growth and employment through supply chain disruptions, trade channels, subdued confidence, risk aversion and more cautious consumption and investment patterns.

45%

BRICS contribution to global GDP growth in 2019

GDP growth has been decelerating globally

%



Authorities around the world were fast to respond with unprecedented (and unconventional) monetary, financial and fiscal stimulus policies. The global development community, including MDBs and other international organisations, are also devising emergency measures to protect lives and jobs, as well as to support economic activities. Despite this needed support, most institutions project that the global economy in 2020 will experience its worst recession since the Great Depression, exceeding the slowdown seen in the global financial crisis experienced about a decade ago. However, significant uncertainty remains over the duration and intensity of the current crisis.

BRICS countries remained an important source of economic growth

BRICS countries remained important drivers of global economic dynamism with a weighted average GDP growth of 5.0% in 2019, compared to 5.8% in 2018. Despite this deceleration, the five countries increased their contribution to global GDP expansion from 43% in 2018 to 45% in 2019, mainly supported by China and India. Furthermore, BRICS countries as a group have been striving to increase their integration in global value chains, thereby supporting trade and investment flows among themselves and globally. The crisis caused by the COVID-19 outbreak will significantly impact the GDP growth of BRICS countries in 2020 as the global economy will experience a large contraction in output, investment and trade.

The pace of economic recovery in **Brazil** slowed from a GDP growth of 1.3% in 2018 to 1.1% in 2019, [26] as businesses and consumers put their investment and consumption decisions on hold, waiting for indications on the approval of structural reforms. Low levels of investment and limited fiscal space remain key constraints for the Brazilian economy. The country is progressing with an agenda of reforms that is expected to promote fiscal consolidation, trade liberalisation and increased investments from the private sector, aimed at enhancing productivity and economic growth. The approval of the pension reform in November 2019 was an important step to support a moderation of fiscal pressures and to increase perceptions over the prospect of other structural reforms being approved.

Economic growth in **Russia** moderated from 2.5% in 2018 to 1.3% in 2019,[27] dragged by lower oil prices and the impact of a higher value-added tax rate on private consumption. Despite the international sanctions, sound macroeconomic policies have been helping build fiscal buffers to increase the country's resilience against external shocks. Over the medium term, growth prospects are supported by an expected increase in public and private sector spending, particularly in core infrastructure projects, in the context of the national projects announced in 2018. A continuation of the government's ambitious structural reforms could further support economic acceleration and sustained growth.

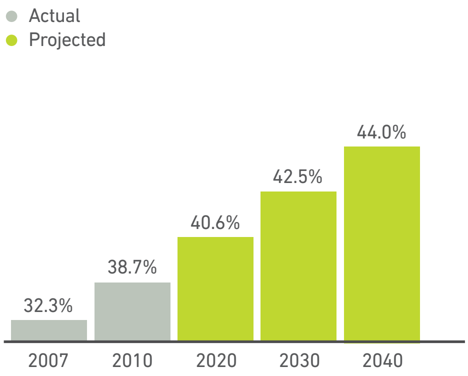
India's economic growth slowed down from 6.8% in 2018 to 4.9% in 2019,[28] as investments were limited by pressures faced by the non-banking financial sector and private demand declined in key industries, such as automobile and real estate. Ongoing reforms and stimulus measures are expected to support investment and consumption in the coming years. The implementation of structural reforms in the financial sector, including bankruptcy rules such as the Insolvency and Bankruptcy Code, are expected to continue enhancing the efficiency of credit provision to improve the business climate. In addition, reductions in consumption and income tax as well as programmes to support rural consumption are expected to benefit private demand, further supporting growth over the medium term.

Economic growth in **China** decelerated from 6.7% in 2018 to 6.1% in 2019,[29] as the country continued its longer-term transition to more sustainable and balanced growth patterns. Authorities implemented necessary adjustments under the framework of a proactive fiscal policy and a prudent monetary policy to offset the negative impact from trade tensions and reduced external demand. At the same time, reforms and opening-up progressed in important areas. Tighter control over off-budget local government activities and strengthened financial regulations moderated risks in the financial sector. Policies enhancing market accessibility and improving the business environment for foreign corporations continued, including through lower tariffs and more flexibility for foreign investments in the country. Such reform efforts are part of the measures to support the country's transition from high-speed growth to high-quality development.

Growth in **South Africa** slowed from 0.8% in 2018 to 0.2% in 2019.[30] While household and government consumption remained relatively strong, weak external demand and subdued gross fixed capital formation were the main drivers of the slowdown. Challenges in electricity supply further constrained the country's recovery. Low levels of private investment, declining productivity and deteriorating fiscal conditions constitute challenges to potential output. The government is designing and implementing reforms to moderate the pace of debt accumulation, increase the efficiency of state-owned enterprises (SOEs) and to tackle unemployment, a long-lasting problem in the country. Effective implementation of such reforms could help improve business confidence and create the conditions for growth acceleration in the medium term.

24 Unless otherwise stated, all data in this section is from the IMF World Economic Outlook, April 2020.
25 World manufacturing production data is from the United Nations Industrial Development Organization. Growth rates were calculated as the average year-on-year quarterly growth of each year.
26 Data from the Brazilian Institute of Geography and Statistics.
27 Data from Russia's Federal State Statistics Service.
28 Data from the Central Statistics Office of India for the calendar years of 2018 and 2019.
29 Data from China's National Bureau of Statistics.
30 Data from the Department of Statistics of South Africa for the calendar years of 2018 and 2019.

Share of BRICS countries in global infrastructure investments[31]



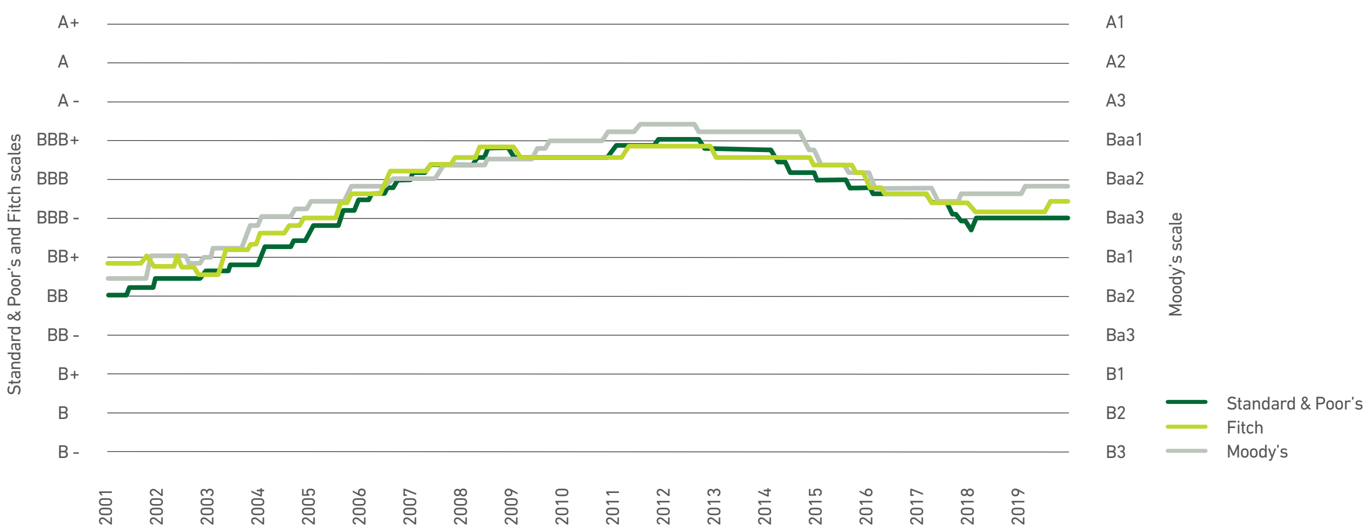
NDB is operating in an environment with ample investment opportunities

NDB's operating environment provides ample infrastructure and sustainable development investment opportunities, given its member countries' growth potential, deep and liquid financial markets and relatively high credit quality. Over the long term, BRICS countries are expected to play an increasingly prominent role in the global economy. According to the OECD,[32] their combined economies are expected to rise from about 20% of global GDP in purchasing power parity terms in 2000 to nearly 50% by 2040. By that time, EMDCs are expected to account for over 60% of global GDP.

In line with the increasing importance of the BRICS in the global economy, infrastructure investments in these countries are expected to account for a growing share of global investments in infrastructure – from 32.3% in 2007 to 44.0% in 2040. Accordingly, the BRICS are also gradually becoming important sources of capital to fund such investments, including through the development of their domestic capital markets and establishment of new development finance institutions, such as NDB.

Besides ample infrastructure investment opportunities in BRICS countries, NDB has an operating environment of relatively sound credit quality. The average credit rating of BRICS countries is close to BBB- according to Standard & Poor's and Fitch and Baa2 according to Moody's, allowing NDB to have a loan portfolio with a weighted average credit rating higher than those of peer MDBs. The credit quality of BRICS countries has proven to be generally resilient even throughout crises and periods of financial distress. For instance, the average credit rating of BRICS countries remained relatively stable during the financial crisis of 2008.

Average credit rating of BRICS countries over the past two decades[33]



Financing of Renewable Energy Projects and Associated Transmission through BNDES in Brazil

Infrastructure investments could be an important driver of growth

The slowing global growth had already prompted a notable shift to monetary policy accommodation in major advanced and emerging economies by late 2019. This trend was further intensified to support economies in face of the crisis caused by the COVID-19 pandemic. As a result, interest rates reached historical lows in many countries, with long-term rates declining into negative territory in some advanced countries.

However, monetary policy was only able to partially offset the slowing growth. This prompted growing discussions on the need of fiscal support, particularly of infrastructure investment. The COVID-19 pandemic accelerated such movement, with several advanced and emerging economies, including the BRICS, announcing large fiscal stimulus packages. In fact, the low interest rate environment potentially makes investments in infrastructure more appealing for countries. The crisis caused by the COVID-19 also underscores the countercyclical role that MDBs and other development finance institutions can play in support of growth and development during periods of crises.

The BRICS countries are making progress in expanding infrastructure investment as a means to reduce bottlenecks, enhance potential growth, increase employment opportunities and provide their citizens with adequate infrastructure.

Brazil has been focusing on concessions, privatisations and public-private partnerships to scale up investment. Russia articulated the National Goals and Strategic Objectives through 2024, which places infrastructure development as a core priority. India set up a task force to promote INR 100 trillion in infrastructure investments over the next five years. China remained the country with the largest infrastructure investments globally, further supporting nationwide strategies such as promoting high-quality development and regional connectivity. South Africa is committed to contribute ZAR 100 billion over the next ten years to seed an infrastructure fund, which is a cornerstone of the country's economic stimulus and recovery plan.

Despite efforts of BRICS countries to scale up infrastructure investments, NDB's preliminary research shows that their infrastructure capital stock as a share of GDP is on a downtrend and significantly below the optimal levels that would enhance GDP growth. The Bank's research also provides evidence that infrastructure investment can raise economic output in the medium and long runs, as well as crowd-in private investment to other productive sectors, while also contributing to the achievement of the SDGs.[34]

31 Data from G20 Global Infrastructure Hub.
32 OECD (2020), "Long-term baseline projections, No. 103", OECD Economic Outlook: Statistics and Projections (database), (accessed on 25 February 2020).
33 Information from Standard & Poor's, Fitch and Moody's via Bloomberg. BRICS average refers to a simple average. Data up to December 31, 2019. Subsequently, Moody's downgraded South Africa from Baa3 to Ba1 in March 2020, and Fitch downgraded South Africa from BB+ to BB in April 2020.
34 Based on the preliminary results of econometric and other economic modelling techniques utilised by NDB's research team. This research is work in progress and will be published in due time.

Strategy Implementation and Review

During a relatively short period of time, NDB has managed to establish itself as a solid, dynamic, trustworthy and fit-for-purpose MDB, in line with the vision of the founding members as elaborated in the General Strategy.

Throughout 2019, NDB continued to implement its General Strategy: 2017–2021. In order to deliver on its mandate and achieve its strategic objectives, the Bank sharpened its focus on financing infrastructure and sustainable development projects that contribute directly to member countries' development priorities, especially those in line with their commitments under the United Nations 2030 Agenda for Sustainable Development (2030 Agenda) and the 2015 Paris Agreement. Development impact considerations, such as projects' alignment with member countries' SDG commitments and contributions to climate change adaptation and mitigation, have become increasingly mainstreamed into the preparation and implementation of NDB's operations.

2019 marked the halfway point of implementing NDB's General Strategy: 2017–2021. A review of the strategy implementation revealed that considerable progress has been made by the Bank over the first half of the strategy period along four main dimensions – operational, financial, institutional and development impact – that collectively represent the full strategic imperative for the Bank. During a relatively short period of time, NDB has managed to establish itself as a solid, dynamic, trustworthy and fit-for-purpose MDB, in line with the vision of the founding members as elaborated in the General Strategy.

Going forward, NDB is committed to working towards the full implementation of its General Strategy: 2017–2021, further consolidating and leveraging its expertise in mobilising resources for infrastructure and sustainable development projects. Within the broad spectrum of investment opportunities, the Bank will continue placing a special focus on projects within its key areas of operation, which are strategically selected to address some critical development challenges faced by its member countries.

In response to the urgent needs of its member countries caused by the COVID-19 pandemic, the Bank is acting with increasing agility, speed and flexibility, as guided by its General Strategy: 2017–2021. The Bank will leverage its demand-driven approach to provide tailor-made solutions to deal with the immediate challenges posed by the pandemic, as well as to address its long-term social and economic consequences.

NDB's key areas of operation[35]

- **Clean Energy**
- **Transport Infrastructure**
- **Irrigation, Water Resource Management and Sanitation**
- **Urban Development**
- **Environmental Efficiency**
- **Social Infrastructure**
- **Multi-theme**

35 Based on NDB's experience since the approval of the General Strategy: 2017–2021, economic cooperation and integration is viewed as a feature of some projects rather than a separate key area. The Bank has expanded its operations into two additional key areas, namely environmental efficiency and social infrastructure, and approved operations with multiple sub-projects in various key areas, i.e. multi-theme operations.

Operations

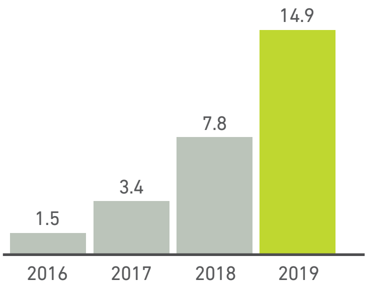
"As the first global MDB established initially by EMDCs, NDB highly respects member countries' national sovereignty as well as their domestic policies and procedures, and intends to adopt equal partnerships with clients and a demand-driven business model. NDB has been providing mostly long-term debt financing both in hard and local currencies, primarily focusing on the priority infrastructure sectors as identified by member countries, particularly where the private sector would be less interested or unable to participate, so as to support member countries in enhancing the provision of key infrastructure services critically needed for the public. NDB also puts innovation and support of technological transformation as its emerging priority and is willing to work with different stakeholders, both public and private, in exploring new practices, approaches and financial products."

Mr. Xian Zhu
Vice President and Chief Operations Officer of NDB

Overview of the Portfolio

Building a robust and diversified portfolio of operations is imperative for NDB to fulfil its mandate and achieve its strategic objectives. Throughout 2019, 22 new operations with a total amount of USD 7.2 billion were approved, bringing the Bank's cumulative approvals to 53 operations totalling USD 15.3 billion. At the end of 2019, NDB's portfolio net of cancellations stood at 51 operations totalling USD 14.9 billion.[36] The Bank also stepped up efforts to accelerate disbursements, which brought cumulative disbursements to USD 1.5 billion as at December 31, 2019, a 146% year-on-year increase.

Cumulative approvals (as at December 31)
USD bn



Cumulative operations results

	As at Dec 31, 2019 Number	As at Dec 31, 2019 USD m	As at Dec 31, 2018 Number	As at Dec 31, 2018 USD m
Total approvals	**53[37]**	**15,252**	31[37]	8,078
Cancellations	**2[38]**	**319**	1[39]	250
Approvals net of cancellations	**51**	**14,933**	30	7,828
Disbursements	**26[40]**	**1,539[41]**	9[40]	625

Cumulative approvals by type of operation

	As at Dec 31, 2019 Number	As at Dec 31, 2019 USD m	As at Dec 31, 2018 Number	As at Dec 31, 2018 USD m
Sovereign loans	**38**	**11,935**	23	6,428
Non-sovereign loans	**12**	**2,898**	7	1,400
Equity investments	**1**	**100**	–	–
Total	**51**	**14,933**	30	7,828

The Bank's portfolio remains concentrated on sovereign and sovereign-guaranteed operations, which represented approximately 80% of cumulative approvals at the end of 2019. The share of non-sovereign operations increased gradually from 18% to 20% over 2019, in response to the growing demand from member countries for financing without sovereign backing. In 2019, NDB made its first equity investment, a concrete step forward to move beyond traditional loans and to offer diversified financing instruments to meet clients' needs, as envisioned by NDB's founding members.

USD 15 bn

Cumulative project approvals as at December 31, 2019

USD 100 m

NDB's first equity investment

36 Unless otherwise stated, discussions on NDB's operations are based on the Bank's portfolio net of cancellations.
37 The two loans to EDB and IIB for on-lending to the Nord-Hydro project in Russia are counted as two separate approvals in this Annual Report, instead of one as in the previous reports.
38 Relates to the USD 250 million sovereign-guaranteed loan to Canara Bank (India) for its Renewable Energy Financing Scheme approved in 2016 and cancelled in 2018, and the USD 68.8 million loan to the Government of the Russian Federation for the Ufa Eastern Exit Project, approved in 2017 and cancelled in 2019.

Geographic Distribution

The geographic distribution of NDB's operations is becoming increasingly balanced as the Bank develops its capacity to identify and prepare projects in all member countries. Country concentration of the Bank's portfolio, as measured using a Herfindahl-Hirschman index, reduced to 0.22 at the end of 2019 from 0.26 in 2018 and 0.28 in 2017, indicating continuous improvements in geographic diversification.

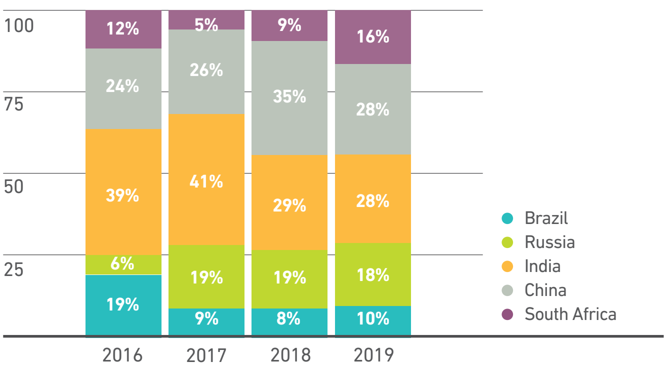

On November 14, 2019, NDB's management team visited the sub-office of the Bank's Americas Regional Office in Brasília, Brazil

The share of financing to clients in South Africa and Brazil, representing 9% and 8% of the Bank's cumulative approvals at the end of 2018, increased to 16% and 10% by the end of 2019, respectively. Regional offices played a critical role in scaling up the identification and preparation of bankable projects in their respective countries of operations, which helped to bring the distribution of the Bank's operations across member countries closer to a broad equilibrium.

Cumulative approvals by country

	As at Dec 31, 2019		As at Dec 31, 2018	
	Number	USD m	Number	USD m
Brazil	**7**	**1,521**	4	621
Russia	**9**	**2,716**	7	1,469
India	**13**	**4,083**	7	2,300
China	**14**	**4,218**	9	2,758
South Africa	**8**	**2,395**	3	680
Total	**51**	**14,933**	30	7,828

Geographic distribution of cumulative approvals (as at December 31)



39 Relates to the USD 250 million sovereign-guaranteed loan to Canara Bank (India) for its Renewable Energy Financing Scheme approved in 2016 and cancelled in 2018.
40 Number of operations to which disbursements were made.
41 Includes repayments.

Financing in Local Currencies

In 2019, NDB expanded its local currency financing, approving its first ZAR-denominated loans amounting to USD 1.2 billion equivalent.

A key component of NDB's value proposition is the commitment to provide local currency financing, which now represents a significant share of the portfolio. Overall, 27% of the Bank's cumulative approvals are in its borrowing member countries' currencies, higher than the percentages of other major MDBs.

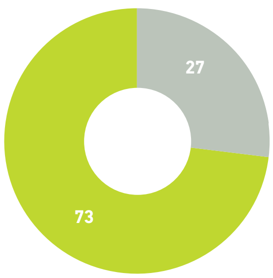
Since the beginning of its operations, NDB has been offering loans denominated in RMB, and in 2019 the Bank started lending in ZAR. By the end of the year, around two-thirds of the Bank's cumulative approvals for projects located in China were denominated in RMB, and about half of the lending to South African borrowers were made in ZAR.

In 2019, NDB also started approving tailor-made facilities in various currencies to satisfy the diverse needs of its clients, such as the CHF 500 million loan to Joint Stock Company Russian Railways, the EUR-denominated loan of the equivalent to USD 500 million to the Government of the Russian Federation, and the USD 300 million loan to Vale S.A. in Brazil, of which up to USD 50 million equivalent may be delivered in RMB while the remaining balance would be provided in USD.

Cumulative approvals by currency

	As at Dec 31, 2019		As at Dec 31, 2018	
	Number	USD m	Number	USD m
RMB	**9**	**2,768**[42]	5	1,558
ZAR	**4**	**1,235**	–	–
CHF	**1**	**516**	–	–
EUR	**1**	**500**	–	–
USD	**36**	**9,914**[42]	25	6,270
Total	**51**	**14,933**	30	7,828

Cumulative approvals by type of currency (as at December 31, 2019)
%



Type of currency	%
Member countries' currencies	**27**
Hard currencies	**73**

42 The USD 300 million loan to Vale S.A. includes a USD 50 million portion which could be delivered in RMB. This USD 50 million portion is included in the amount of approvals in RMB and excluded from the amount of approvals in USD.

NDB's Operations through the Lens of Key Areas

Lingang Distributed Solar Power Project in China

Within the infrastructure and sustainable development space, NDB has successfully diversified its portfolio across a set of key areas of operation. As detailed in the section on Impact of NDB's Operations,[43] these strategically selected key areas are closely aligned with the spirit of the 2030 Agenda. Projects prepared and implemented by the Bank in these key areas can help advance member countries' progress in achieving a variety of SDGs, either directly through intended project outputs and outcomes or indirectly through their cascading effects.

Cumulative approvals by area of operation

	As at Dec 31, 2019		As at Dec 31, 2018	
	Number	USD m	Number	USD m
Clean energy	**14**	**3,519**	9	1,937
Transport infrastructure	**13**	**4,421**	8	2,175
Irrigation, water resource management and sanitation	**7**	**2,080**	4	1,426
Urban development	**10**	**2,653**	5	1,130
Environmental efficiency	**4**	**1,200**	3	700
Social infrastructure	**2**	**960**	1	460
Multi-theme[44]	**1**	**100**	–	–
Total	**51**	**14,933**	30	7,828

Reviewing NDB's operations through the lens of these strategic areas offers additional insights into the Bank's contribution to infrastructure and sustainable development as well as to its member countries' efforts to achieving the SDGs, as intended by its General Strategy: 2017–2021.

43 See pages 50 and 51.
44 Relates to the USD 100 million equity investment in a private equity fund that will invest in multiple sub-projects in various key areas of NDB's operation.

Clean Energy

NDB is fully committed to supporting its member countries' development efforts to embark on a more sustainable energy path. In order to facilitate the structural transformation of the energy sector, the Bank places special emphasis on the adoption of innovative technologies in its operations. This includes the use of emerging renewable energy technologies, such as offshore wind and distributed solar energy generation, as well as the upgrade of existing energy facilities using state-of-the-art technologies to achieve greater efficiency and reduce pollution.

In 2019, NDB approved five loans totalling USD 1.6 billion to support clean energy projects in its member countries, both directly and through financial intermediaries.

- In **South Africa**, where the energy sector is at the heart of the country's development strategy, the Bank approved two additional loans to Eskom Holdings SOC Ltd (Eskom), a state-owned electricity utility that generates approximately 95% of the electricity used in the country.[45]

  – A loan of USD 480 million was approved to support the retrofit of flue gas desulphurisation equipment on an existing thermal power plant of Eskom. The main objective of the project is to reduce the power plant's sulphur dioxide (SO_2) emissions from the current level of 3,500 mg/m^3 to below 500 mg/m^3 by 2026 to be in compliance with national environmental regulations.

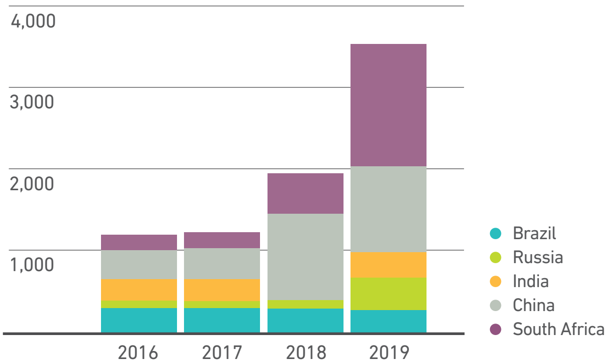
  – Another loan of ZAR 6 billion was approved for setting up Eskom's battery energy storage system, comprising 360 MW/1,440 MWh of distributed battery storage sites across four provinces in South Africa. This innovative battery energy storage system, the first of its kind in the African continent, can help address South Africa's electricity supply-demand mismatch by allowing energy to be stored during off-peak periods and released during peak periods.

SDG alignment of clean energy projects (as at December 31, 2019)

Primary SDG alignment

Direct contribution to additional SDGs

Cumulative approvals for clean energy projects (as at December 31)
USD m



USD 1.6 bn

Approved by NDB in 2019 for clean energy projects

45 These loans are a continuation of NDB's engagement with Eskom, which includes a USD 180 million loan approved by the Bank in 2016.


Battery energy storage system

Over the year, NDB continued to support the development of the renewable energy sector in its member countries by leveraging financial institutions of various types:

- In **Russia**, the Bank is committed, through a USD 300 million loan to EDB, to support the installation of renewable energy generation capacity, using wind, solar, and small hydropower energy technologies to improve the country's energy mix and avoid CO_2 emissions.

- In **India**, NDB approved a USD 300 million loan to REC Limited to finance the construction of renewable energy power plants and associated evacuation transmission lines. This will help reduce the country's reliance on thermal power, which is a main contributor to carbon emissions and air pollution.

- In **South Africa**, the Bank approved a ZAR 1.15 billion loan to the Industrial Development Corporation (IDC) for on-lending to renewable energy power projects, including independent power producers, which will support the country's efforts to diversify the energy mix away from coal, shifting towards a less carbon-intensive and more resilient development trajectory.

By the end of 2019, NDB had cumulatively approved USD 3.5 billion through 14 operations to support clean energy projects across all member countries. These operations, accounting for 24% of the Bank's cumulative approvals, are aligned primarily with SDG 7 on Affordable and Clean Energy, and may also contribute directly to SDGs 9, 11, 12 and 13.

23%

Share of clean energy projects in NDB's cumulative approvals as at December 31, 2019

Transport Infrastructure

High-quality and efficient transport infrastructure can enhance the mobility of people and goods and unlock accessibility to markets and services, bringing about a wide range of socio-economic opportunities and benefits with positive multiplier effects. Within the broad spectrum of transport infrastructure, NDB prioritises projects that promote accessible transport modes with lower emissions of greenhouse gases (GHGs) and greater efficiency, as well as projects that enable inclusive development by providing improved connectivity for populations in underserved areas.

In 2019 alone, NDB approved six loans totalling USD 2.3 billion for the development of transport infrastructure of different types across all member countries.

- In **Brazil**, the Bank extended a USD 300 million corporate loan to Vale S.A., the largest mining company and a major logistics operator in the country, to develop its transportation system in the country's northern region. The project, which encompasses railway and port infrastructure improvements, will help Vale S.A. enhance its cargo capacity and strengthen its operational efficiency. To meet the borrower's demand, the NDB loan was tailor-made to be a multiple currency facility. Up to USD 50 million of the loan can be delivered in RMB equivalent, while the remaining balance would be provided in USD.

- In **Russia**, NDB provided CHF 500 million to the Joint Stock Company Russian Railways for its locomotive fleet renewal programme. Under this large-scale programme with a total cost of RUB 501 billion, 3,576 new locomotives equipped with the latest technologies will be acquired to replace the outdated and inefficient fleet. The programme will contribute to the modernisation of Russia's railway system, increasing its traction power and productivity while reducing its energy consumption and the associated GHG emissions.

- In **India**, the Bank approved two loans of USD 323 million each to support two separate but complementary road projects in the state of Andhra Pradesh. These were the Andhra Pradesh Roads and Bridges Reconstruction Project and the Andhra Pradesh Mandal Connectivity and Rural Connectivity Improvement Project. Both projects are aimed at improving mobility and accessibility to socio-economic centres, increasing transport efficiency, and enhancing road safety within the state. Together, these two projects will entail the upgrade of about 3,000 km of roads and the reconstruction of over 470 bridges, providing support to India's efforts to build resilient transport infrastructure.

SDG alignment of transport infrastructure projects (as at December 31, 2019)

Primary SDG alignment

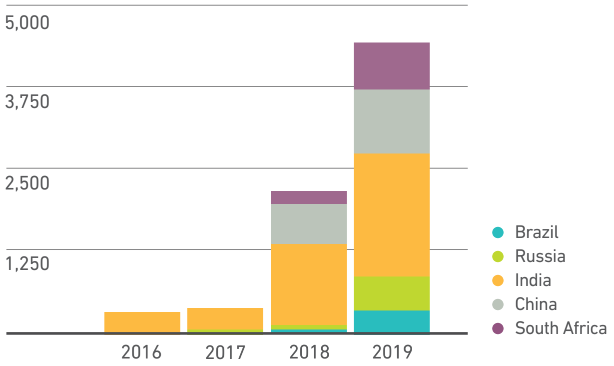
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Direct contribution to additional SDGs

3 GOOD HEALTH AND WELL-BEING

11 SUSTAINABLE CITIES AND COMMUNITIES

Cumulative approvals for transport infrastructure projects (as at December 31)
USD m



USD 2.3 bn

Approved by NDB in 2019 for transport infrastructure projects

Pará Sustainable Municipalities Project in Brazil

- In **China**, the Bank provided RMB 2.5 billion to finance the Lanzhou New Area Regional Hub Multimodal Logistics and Transport Infrastructure Demonstration Project. Located in the landlocked province of Gansu in northwest China, the project will provide multimodal logistics options, such as rail, road and air freight, by building and upgrading transport infrastructure and relevant auxiliary facilities. A multimodal logistics information platform will also be installed to enhance the overall logistics efficiency, enable real-time information sharing and provide online logistics solutions. Successful implementation of the project is expected to have a strong positive spill-over effect on industrial development and economic growth in northwest China.

- In **South Africa**, the Bank approved ZAR 7 billion, through a sovereign-guaranteed loan, to South African National Roads Agency SOC Ltd (SANRAL) for a programme aimed at strengthening and improving the national toll roads, as a way to reduce transportation costs in the country. To that end, 240 lane-km of new toll roads will be constructed, while another 240 lane-km of existing key toll road sections will be rehabilitated. Auxiliary infrastructure, such as bridges, intersections and safety measures, will also be built or upgraded.

As at December 31, 2019, NDB had cumulative approvals of 13 projects in transport infrastructure, with a total amount of USD 4.4 billion, which represented the largest share (30%) of the Bank's portfolio. These projects are aligned primarily with SDG 9 on Industry, Innovation and Infrastructure, and also contribute directly to SDGs 3 and 11.

30%

Share of transport infrastructure projects in NDB's cumulative approvals as at December 31, 2019

Irrigation, Water Resource Management and Sanitation

Access to clean drinking water and adequate sanitation is paramount to socio-economic development, especially in underserved rural and peri-urban areas. A modernised agricultural sector that requires advanced and efficient irrigation systems, and sound and environmentally friendly management of water resources, is also critical to help achieve sustained growth of countries. Within the wide range of water-related sectors, NDB prioritises financing to support irrigation infrastructure, clean drinking water supply and sanitation, and technology to enable efficient water resource management.

In 2019, NDB approved three loans totalling USD 658 million to projects aiming to improve water resource management, water supply and sanitation across three member countries.

- In **South Africa**, the Bank provided a ZAR 3.2 billion sovereign guaranteed loan to the Trans-Caledon Tunnel Authority (TCTA), a government agency, for the implementation of the second phase of the Lesotho Highlands Water Project. Financing from NDB will be used for the construction of water transfer infrastructure in Lesotho designed to augment water supply in the Vaal River Basin, home to South Africa's most economically important province, Gauteng. The project aims to support economic growth and foster sustainable livelihoods of people by increasing water yield of the Vaal River System by almost 15% in the long run, thus reducing the need for water usage restrictions and promoting South Africa's resilience to drought.

- In **China**, NDB extended a RMB 825 million sovereign loan for financing of the second phase of the Shengzhou Urban and Rural Integrated Water Supply and Sanitation Project. The project aims at fostering socio-economic development by supporting the effectiveness of Shengzhou's water management system, improving water quality and enhancing the economic efficiency of local water resources. The project's main components include the construction of four water supply plants, three sewage treatment plants, associated pipelines and a smart water management centre.

- In **India**, the Bank approved a USD 312 million sovereign loan to the Government of the Republic of India for the Manipur Water Supply Project. NDB financing will be on-lent to the State Government of Manipur to construct and upgrade drinking water supply systems. The project is expected to improve access to safe drinking water for about 3.1 million people in Manipur by 2025, thereby contributing to a reduction in water-borne diseases and associated financial burdens on local families.

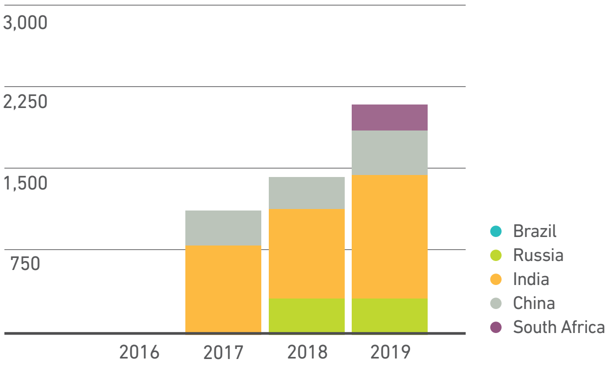
SDG alignment of irrigation, water resource management and sanitation projects (as at December 31, 2019)

Primary SDG alignment

Direct contribution to additional SDGs

Cumulative approvals for irrigation, water resource management and sanitation projects (as at December 31)

USD m



USD 658 m

Approved by NDB in 2019 for water resource management, water supply and sanitation projects

As at December 31, 2019, NDB had cumulatively approved seven loans with a total amount of USD 2.1 billion to irrigation, water resource management and sanitation projects, accounting for 14% of the Bank's cumulative net approvals. These operations cover a diverse range of sub-areas, and thus are aligned with different SDGs. Projects focused on water resource management and sanitation are primarily aligned with SDG 6 on Clean Water and Sanitation. One irrigation project is primarily aligned with SDG 2 on Zero Hunger. Projects in this key area of operation may also contribute directly to SDGs 3, 11 and 13.

14%

Share of irrigation, water resource management and sanitation projects in NDB's cumulative approvals as at December 31, 2019

Urban Development

NDB considers sustainable urbanisation initiatives to be increasingly important as a rapidly growing share of the population of EMDCs live in urban areas. More efficient and sustainable urban environments have multiple positive spin-off effects on living quality, energy use, economic productivity and inclusive access to opportunities. NDB seeks to support sustainable urbanisation in its member countries, with a focus on projects that improve urban water and electricity supply, sanitation, transport, climate resilience, integration of information technology and associated social infrastructure and services.

In 2019, NDB approved five loans for urban development projects in India and China amounting to more than USD 1.5 billion. Four of the loans approved address urban transport and connectivity, aiming to improve productivity, accessibility to social services and climate-resilience of cities.

- In **China**, the Bank provided a sovereign loan of RMB 2.1 billion for the Yinchuan Green Transport Project. Located in the capital city of the Ningxia Hui Autonomous Region, the project will improve the efficiency and reach of public transport services by developing a green bus system. On an annual basis, the project is expected to help reduce CO_2 emissions by around 45,000 tons, save around 30 million m^3 of natural gas and lower the operating costs for Yinchuan's bus system by around RMB 60 million.

- Also in **China**, the Bank approved a RMB 2.76 billion sovereign loan for the Huangshi Modern Tram project. The project, which will be implemented by the Municipality of Huangshi, entails the construction of a modern tram network with a total length of about 28 km. The tram line is expected to help better integrate key areas of economic activity across the city and spur socio-economic development by improving connectivity in a sustainable way.

- In **India**, NDB provided a sovereign loan amounting to USD 225 million for the Indore Metro Project. The project will entail the construction of a new metro line of about 31 km in the city of Indore, the commercial capital of the state of Madhya Pradesh. Upon completion, the metro line is expected to handle around 126 million passenger trips per year, contributing to the reduction of vehicle congestion and pollution while delivering better connectivity for local residents.

SDG alignment of urban development projects (as at December 31, 2019)

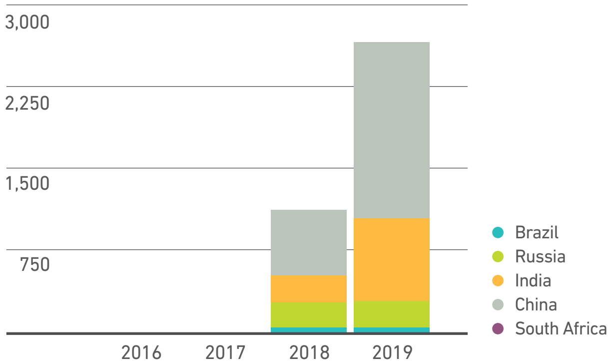
Primary SDG alignment

11 SUSTAINABLE CITIES AND COMMUNITIES

Direct contribution to additional SDGs

6 CLEAN WATER AND SANITATION | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 13 CLIMATE ACTION

Cumulative approvals for urban development projects (as at December 31)
USD m



USD 1.5 bn

Approved by NDB in 2019 for urban development projects

Guangxi Chongzuo Water Resource Rehabilitation and Ecological Conservation Project in China

- Also in **India**, a sovereign loan of USD 300 million was provided by the Bank for the Assam Bridge Project. The project includes the construction of a major bridge with the total length of approximately 8.3 km in the city of Guwahati, the regional hub of trade, commerce and services in north-eastern India. Providing essential connectivity across the north and south banks of the Brahmaputra River, the project is expected to improve access to economic, health and educational centres and contribute to improved socio-economic conditions for residents of Guwahati and its surrounding region.

Loan approvals for urban development projects by the Bank in 2019 also included one project related to integration of water and waste-water management into sustainable urbanisation plans.

- In **China**, the Bank approved a USD 300 million sovereign loan for the Guangxi Chongzuo Water Project. Over recent decades, the rapid urbanisation of Chongzuo – a city located in the Guangxi Zhuang Autonomous Region in southwest China – has resulted in the degradation of water quality and ecological resources. The project seeks to improve the urban water environment and enhance flood protection in Chongzuo mainly by rehabilitating and connecting water bodies and developing a smart water management system to promote the sustainable use of local resources.

As at December 31, 2019, NDB had cumulatively approved ten loans for urban development projects with a total amount of USD 2.7 billion, accounting for 18% of the Bank's cumulative approvals. These projects are primarily aligned with SDG 11 on Sustainable Cities and Communities, and may also contribute to achieving SDGs 6, 9 and 13.

18%

Share of urban development projects in NDB's cumulative approvals as at December 31, 2019

Environmental Efficiency

NDB is committed to facilitating member countries' transition to a development path with a lower environmental footprint. The Bank attaches importance to "achieving more and better with less", that is, to providing more and better quality socio-economic benefits with less environmental impact.
NDB also finances projects that help reverse some negative environmental impacts brought by economic development in the past.

- In 2019, NDB approved a loan of USD 500 million to **Brazil** to support Fundo Clima, the National Climate Fund. Through Fundo Clima, the loan proceeds will be on-lent to climate change mitigation and adaptation projects in various sectors that facilitate the fulfilment of the country's Intended Nationally Determined Contribution. Fundo Clima will also target projects that promote innovative technical and financial solutions aimed at addressing climate-related challenges.

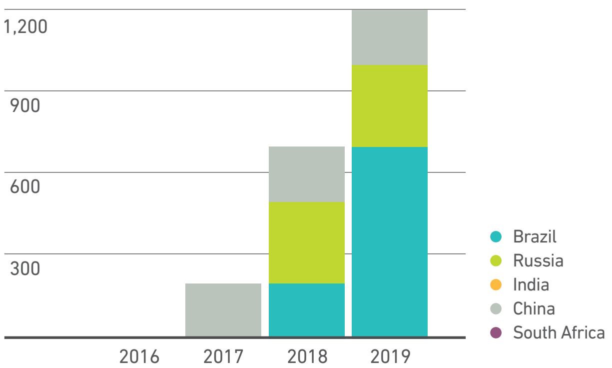
By the end of 2019, the Bank had cumulatively approved USD 1.2 billion through four operations to support environmental efficiency projects in Brazil, Russia and China. These projects are aligned primarily to SDG 9 on Industry, Innovation and Infrastructure and SDG 13 on Climate Action. At the same time, they may also contribute directly to SDGs 6 and 12.

SDG alignment of environmental efficiency projects (as at December 31, 2019)

Primary SDG alignment

Direct contribution to additional SDGs

Cumulative approvals for environmental efficiency projects (as at December 31)
USD m



USD 500 m

Approved by NDB in 2019 for environmental efficiency projects

8%

Share of environmental efficiency projects in NDB's cumulative approvals as at December 31, 2019

Social Infrastructure

NDB considers investment in social infrastructure as one of the effective means to deliver social services, develop human capital and improve institutional systems. The Bank strives to capture and accelerate technological innovation to provide quality and relevant social infrastructure in response to the changes precipitated by the Fourth Industrial Revolution.

- In 2019, NDB approved a EUR-denominated loan of equivalent to USD 500 million to support the establishment of advanced engineering schools at about 30 higher education institutions in **Russia**. The project involves creation or redesign of education programmes with necessary equipment and infrastructure. It aims to prepare highly skilled graduates in engineering in urgent demand by an increasingly digitalised economy.

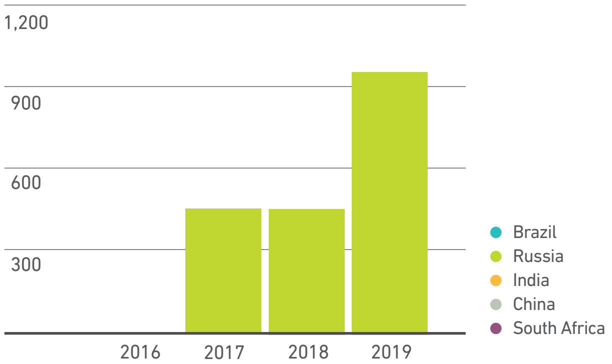
By the end of 2019, the Bank had cumulatively approved USD 960 million to support two social infrastructure projects, both of which are located in Russia. One projects is primarily aligned with SDG 16 on Peace, Justice and Strong Institutions, while the other is primarily aligned with SDG 4 on Quality Education. The latter will also contribute directly to SDG 8.

SDG alignment of social infrastructure projects (as at December 31, 2019)

Primary SDG alignment

Direct contribution to additional SDGs

Cumulative approvals for social infrastructure projects (as at December 31)
USD m



USD 500 m

Approved by NDB in 2019 for social infrastructure

6%

Share of social infrastructure projects in NDB's cumulative approvals as at December 31, 2019

Multi-theme

In addition to financing projects designed to address development challenges within a specific key area of operation, NDB also supports projects with stand-alone sub-projects that could be mapped to different key areas. These types of projects hold the potential to offer a wider range of development benefits. The Bank's inaugural equity investment is an example of such operations.

- In 2019, NDB approved an equity investment of up to USD 100 million in Patria Infrastructure Fund IV, a private equity fund pursuing investments in infrastructure and infrastructure-related assets in **Brazil** and other selected Latin American countries.[46]

  By leveraging this infrastructure-focused fund, whose investment strategy is well aligned with NDB's mandate, the Bank will provide much-needed equity financing to a number of investments across Brazil's key infrastructure sectors, such as power and energy, transport and logistics, information and communications technology, as well as water and sanitation. More importantly, NDB's equity participation in the fund could help crowd-in additional capital, especially from the private sector, for infrastructure investments, contributing to closing the financing gap.

This equity investment was the only multi-theme operation of the Bank as at December 31, 2019. It is primarily aligned with SDG 9 on Industry, Innovation and Infrastructure, and may contribute to many other SDGs, depending on the final selection of sub-projects that will benefit from the fund's investment.

SDG alignment of multi-theme projects (as at December 31, 2019)

Primary SDG alignment

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

USD 100 m

Approved by NDB in 2019 for multi-theme projects

1%

Share of multi-theme projects in NDB's cumulative approvals as at December 31, 2019

46 NDB's financing will be used exclusively for investment opportunities in Brazil.

Project Preparation Fund

The Project Preparation Fund (PPF) is NDB's multi-donor fund designed to support preparation of bankable projects in the Bank's member countries through the provision of technical assistance. Providing support for project preparation and helping member countries develop quality projects that can attract financing from NDB and other financiers is an essential component of NDB's mandate, reflected in its AoA.

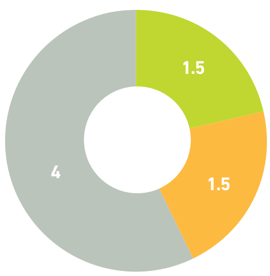
The PPF was established by the BoG in January 2017, and contribution to the fund is open to all member countries of the Bank. To date, agreements have been signed with China and Russia in 2017 for commitments of USD 4 million and USD 1.5 million, respectively, and with India in 2018 for a commitment of USD 1.5 million.

As at December 31, 2019, total contributions of USD 7 million to the PPF had been received in full. In 2019, the Bank approved its first two projects under the PPF:

- In **Russia**, NDB approved USD 400,000 to support preparation of the Krasnodar Cable Car Project up to the stage when the project can be considered by external financiers. The technical assistance facility will fund consulting services for key activities, including an in-depth evaluation of the project's feasibility. The project envisages the construction of a cable car network in the most densely populated areas in the northern part of Krasnodar to reduce the excessive load on the existing transport network and to ensure transport coverage in areas that currently lack accessibility.

- In **India**, the Bank approved the provision of a USD 300,000 technical assistance facility for the Mizoram Tuirini Small Hydro Project. The objective of the facility is to fund key project preparation components, including the environmental and social assessment, as well as technical, financial and economic feasibility studies. Following adequate preparation, the project will be ready to attract financing to build a small hydropower plant with an installed capacity of 24 MW on the Tuirini river, located about 60 km from the state capital of Mizoram, Aizawl.

Contributions to PPF by country (as at December 31, 2019)
USD m



	USD m
Russia	1.5
India	1.5
China	4

USD 7 m

Contribution to PPF received as at December 31, 2019

Impact of NDB's Operations

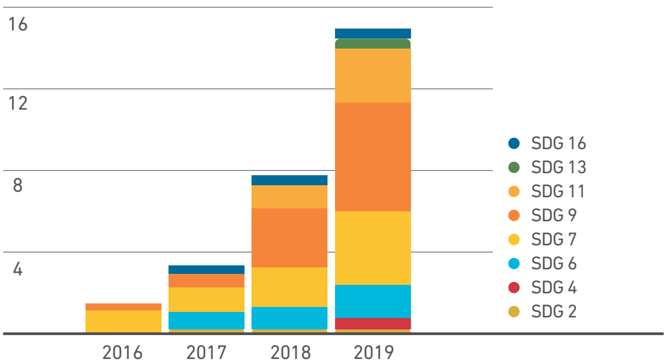
NDB seeks to support BRICS and other EMDCs to achieve their development goals.

NDB's cumulative approvals by primary SDG alignment (as at December 31, 2019)

Primary SDG alignment	Number of projects	Cumulative approvals USD m	% of total approvals	Direct contribution to additional SDGs
2 Zero hunger	1	345	2	6 Clean water and sanitation
4 Quality education	1	500	3	8 Decent work and economic growth
6 Clean water and sanitation	6	1,735	12	3 Good health and well-being; 11 Sustainable cities and communities; 13 Climate action
7 Affordable and clean energy	14	3,519	24	9 Industry, innovation and infrastructure; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action
9 Industry, innovation and infrastructure	17	5,221	35	3 Good health and well-being; 6 Clean water and sanitation; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action
11 Sustainable cities and communities	10	2,653	18	6 Clean water and sanitation; 9 Industry, innovation and infrastructure; 13 Climate action
13 Climate action	1	500	3	
16 Peace, justice and strong institutions	1	460	3	

Evolution of NDB's operations by primary SDG alignment (as at December 31)

USD bn



Alignment with the SDGs

NDB was established at a time when the global development community was working together to formulate the 2030 Agenda. The Bank's General Strategy: 2017–2021 was approved less than two years after the adoption of the 17 SDGs and the Paris Agreement by all United Nations' member states, and it is closely aligned with the spirits of these international agreements.

As set out in the General Strategy: 2017–2021, NDB seeks to support BRICS and other EMDCs to achieve their development goals, by focusing its investments on a set of key areas of operation. The strategic selection of these sectors as NDB's priority areas has facilitated the alignment of the Bank's operations with its member countries' efforts to achieve specific SDGs.

In 2019, NDB developed and tested an evidence-based method to document and report on the alignment of the Bank's operations with the SDGs. Each project is mapped, through quantifiable development outputs and outcomes, to a primary SDG to which the project is most directly and closely related. The project may also be mapped to one or more additional SDGs through quantitative or qualitative analysis of its intervention logic.[47]

By applying the evidence-based SDG alignment method, all projects in the Bank's portfolio as at the end of 2019 were mapped to the relevant SDGs. The mapping exercise revealed that eight out of the 17 SDGs have been targeted by the Bank's projects as primary SDGs. The mapping results also suggested that most of the projects in the Bank's portfolio are expected to have direct alignment with one or two additional SDGs, on top of their respective primary SDGs. Taking into account both primary and additional SDGs, the projects in the Bank's current portfolio are expected to contribute directly to achieving 11 out of the 17 SDGs.

NDB's portfolio has evolved over time in terms of SDG alignment. The number of SDGs that the Bank's projects are primarily aligned with, increased gradually from two in 2016 to eight in 2019. This reflects the Bank's growing capacity to meet the diverse development needs of its member countries.[48] Furthermore, all NDB's projects are prepared and implemented in collaboration with other development partners, in the spirit of SDG 17 on Partnerships for the Goals.

47 The method for SDG alignment of NDB's operations is based on the understanding of and accounting for their positive development results, and therefore does not include considerations of potential adverse impacts of projects. Management of environmental and social risks and adverse impacts of projects is undertaken with guidance by NDB's Environment and Social Framework (ESF).

48 On March 19, 2020, NDB approved a RMB 7 billion emergency assistance programme loan to China in Combating COVID-19, which became the Bank's first operation that is primarily aligned with SDG 3 on Good Health and Well-being. This was another testament of NDB's agility and commitment to promptly address the needs of member countries, especially in times of emergency.

Highlights of expected development results of selected projects financed by NDB[49] (cumulative as at December 31, 2019)

Development indicator	Development result	SDG alignment
Renewable and clean energy generation capacity to be installed	2,800 MW	7 AFFORDABLE AND CLEAN ENERGY
CO_2 emissions to be avoided	5.2 million tons/year	13 CLIMATE ACTION
Roads to be built or upgraded	11,500 km	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Bridges to be built or upgraded	820	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Water storage capacity to be created	2,300 million m^3	6 CLEAN WATER AND SANITATION
Drinking water supply capacity to be increased	159,000 m^3/day	6 CLEAN WATER AND SANITATION
People to benefit from improved access to water and sanitation services	6.8 million	6 CLEAN WATER AND SANITATION
Metro and tram networks to be built	140 km	11 SUSTAINABLE CITIES AND COMMUNITIES
Cities to benefit from NDB's sustainable development projects	35	11 SUSTAINABLE CITIES AND COMMUNITIES

49 Expected development results are presented for selected projects that NDB financed in collaboration with partners, irrespective of the share of the Bank's financial contribution. The numbers are rounded and are based on the information available at the time of approval.

Expected development results

To deliver on its mandate, the Bank seeks to maximise the development results of the projects it supports. Setting development objectives, selecting performance indicators, monitoring and reporting on development results, and evaluating development impacts are core elements of the Bank's operations.

At the project preparation stage, the Bank assesses potential development contributions of each project, and documents specific development outputs, outcomes and impacts the project expects to deliver. Each project considered for financing by NDB undergoes screening for positive development contributions, which goes beyond direct financial calculations to a longer-term and broader assessment of economic, environmental and social impacts. Indicators to monitor and evaluate development results, including baseline and target levels, are set in results frameworks at the project level.

Since its inception, NDB has been building and enhancing its ability to design and implement projects with clearly defined development objectives and quantifiable development results. The Bank is building comprehensive systems to be able to collect information, monitor results and measure impacts of its operations throughout their life cycle, ensuring that real development benefits are delivered on the ground.

Environment and Social Framework

NDB incorporates the principles of sustainability in its policies and operations to ensure that projects financed by the Bank are economically viable, environmentally sound and socially responsible. The Bank's ESF contains an overarching policy and environmental and social standards that require its projects to be prepared and implemented in a way that avoids, minimises, mitigates and compensates for adverse impacts on the environment and people, while enhancing positive impacts.

In the management of projects' environmental and social risks and impacts, NDB takes country systems as the starting point, and engages with clients to put in place additional measures to meet the Bank's requirements, if weaknesses are identified in those systems. To better evaluate the adequacy of country systems in its member countries and identify areas that require further intervention by NDB to ensure compliance with its ESF, the Bank has been conducting systematic and detailed gap assessments.

Throughout the entire project life cycle, the Bank adopts a risk-based and outcome-focused approach to manage projects' environmental and social performance. This allows the Bank to keep track of projects' environmental and social risks, both individually and collectively, and to take timely remedial actions to ensure projects' compliance with the ESF's requirements.

Sustainable Infrastructure in Relation to "ZapSibNefteKhim" Project in Russia

Treasury Business

"NDB has taken a significant leap forward in its capital market programmes. In 2019, the Bank successfully registered a global EMTN programme which will enable us to raise short, medium and long-term funding in all BRICS currencies as well as hard currencies. Armed with our AA+ international credit rating from Standard & Poor's and Fitch, as well as a AAA credit rating from Japan Credit Rating Agency, the Bank is able to raise capital at competitive rates and meet the increased funding requirements from our member countries."

Mr. Leslie Maasdorp
Vice President and Chief Financial Officer of NDB

Funding Strategy and Activities

Funding strategy

NDB's funding strategy aims to ensure that sufficient resources are available to meet the Bank's liquidity needs, driven primarily by the Bank's expanding project portfolio as well as its operating and other expenses.

NDB finances its operations from its own capital, which includes paid-in capital provided by shareholders and accumulated retained earnings, as well as from funds borrowed in the capital markets through the issuance of securities. NDB's strong international and domestic credit ratings enable the Bank to access funding at favourable market terms and to pass the benefits on to the borrowers, which is a key purpose of its intermediary role in providing development finance.

NDB aims to utilise a diversified array of funding instruments in local currencies of member countries and other currencies, based on the parameters of the Bank's project portfolio and demand from its clients. To achieve this, the Bank intends to raise funds regularly in global capital markets as well as in domestic capital markets of member countries, with due regard to appropriate hedging mechanisms, in line with its policies and risk management framework. In accordance with a strong focus on sustainability, the Bank is also committed to actively exploring opportunities in green bonds and other green finance instruments, taking into account market conditions and trends.

Focus of NDB's funding strategy

- Diversification of funding portfolio in terms of currencies, tenors and types of interest rates;
- Access to international capital markets;
- Domestic borrowing programmes in member countries;
- Benchmark size transactions;
- Regular issuances; and
- Green bonds and other green finance instruments.

Timeline of NDB's funding activities in 2019

January	February	April	April	November	December
A RMB 10 billion bond programme in China established	A RMB 3 billion bond issued under the RMB bond programme	A USD 2 billion ECP programme established	A ZAR 10 billion domestic bond programme in South Africa established	A RUB 100 billion domestic bond programme in Russia established	A USD 50 billion EMTN programme established

Funding activities

As its operations grow, NDB has established a number of funding platforms to raise funds in various currencies.

- **In January 2019**, NDB became the first issuer to establish an onshore RMB bond programme under the country's new legislation on bond issuances by overseas institutions which is also known as the new Panda Bond regulations.[50]

- **In February 2019**, the Bank successfully placed a RMB 3 billion bond, its second issuance in that currency. The bond had two tranches, including a RMB 2 billion tranche with a tenor of three years and a coupon rate of 3%, and a RMB 1 billion tranche with a tenor of five years and a coupon rate of 3.32%. The issuance attracted considerable interest from overseas investors and the final order book was more than three times oversubscribed.[51]

Bonds issued by NDB[53]

	February 2019		July 2016
Amount	RMB 2 billion	RMB 1 billion	RMB 3 billion
Tenor	3 years	5 years	5 years
Coupon rate	3.00%	3.32%	3.07%

- **In April 2019**, NDB established its debut ECP programme for liquidity management purposes with the maximum size of USD 2 billion.[52] It is rated F1+ by Fitch and A-1+ by Standard & Poor's.

- **Also in April 2019**, NDB registered a ZAR 10 billion bond programme in South Africa. The programme with unlimited validity is listed on Johannesburg Stock Exchange.

- **In November 2019**, the Bank registered a RUB 100 billion bond programme in Russia. The programme with unlimited validity is listed on Moscow Exchange.

- **In December 2019**, NDB registered its inaugural USD 50 billion EMTN programme in international capital markets. The programme has been rated AA+ by Fitch, and it has been assigned AA+ long-term and A-1+ short-term issue ratings by Standard & Poor's. The notes issued under the programme may be denominated in hard currencies, as well as local currencies of the Bank's member countries and others.

By the end of 2019, the Bank had cumulatively issued two bonds in China Interbank Bond Market and raised RMB 6 billion, while a series of short-term notes had been issued under the ECP programme.

50 Interim Measures for the Administration of Bond Issuance by Overseas Institutions in the National Interbank Bond Market under the People's Bank of China and Ministry of Finance Announcement [2018] No.16 dated September 25, 2018.
51 In January 2020, the RMB 3 billion bond issued by NDB was awarded the Best Panda Bond at the Asset Triple A Country Award 2019 ceremony for its innovation and prominence.
52 Under the Regulation S of the United States Securities Act of 1933, as amended.
53 On April 3, 2020, NDB issued a RMB 5 billion Coronavirus Combating Bond with a 3-year tenor and an annual fixed coupon rate of 2.43%.

The issuance ceremony of the NDB 2019 RMB Bond

Use of green bond proceeds

NDB is the first international financial institution to issue a green bond in China's Interbank Bond Market. The Bank issued a RMB 3 billion bond in 2016 with a five-year tenor and a coupon rate of 3.07%. The bond was rated AAA by leading domestic rating agencies in China.

The bond is compliant with International Capital Market Association Green Bond Principles and Green Bond regulation in China, which was confirmed by the independent third-party certification agency prior to the issuance. The same certification agency also confirms on an annual basis the green bond's compliance with the standards with regard to the use of proceeds, process for project evaluation and selection, management of proceeds and reporting. NDB publicly discloses information on the use of green bond proceeds each quarter, and releases an audit report on an annual basis.

By the end of 2019, the bond proceeds had been fully utilised to finance five green projects in two key areas of NDB's operation. This includes four clean energy projects and one environmental efficiency project.

The four renewable energy projects, which collectively entail the installation of 400 MW generation capacity, are expected to generate the following environmental benefits on an annual basis:

- to generate electricity from clean and renewable sources in the amount of over 950 GWh;
- to reduce carbon emissions by close to one million tons; and
- to reduce SO_2 emissions by over 7,500 tons.

NDB is committed to being green on both the lending and funding sides, and will continue to develop its funding activities to promote sustainable development in member countries.

Treasury system development

NDB continues to enhance its treasury infrastructure. In 2019, the Bank:

- implemented a cloud-based system for portfolio management,
- proceeded with the registration of custodians to facilitate local currency investments, and
- further upgraded its settlement and clearing mechanism.

In May 2019, NDB received the 2019 Asian Banker Financial Technology Innovation Award for the best treasury management initiative together with Tata Consultancy Services. The award is designed to recognise annual achievement as well as identify emerging best practices in the implementation of technology in banking operations. NDB was recognised for implementing an integrated software-as-a-service treasury system that supports the full life cycle of trades and processes, allowing for a significant growth in portfolio.

Construction of wind turbine

Treasury Portfolio Management

NDB's treasury portfolio strategy focuses on maintaining high liquidity, minimising risk and achieving reasonably good returns. As founding members' contributions to capital continue to flow in, the Bank has increased the scope of its treasury activities much beyond the management of USD and RMB-denominated deposits that characterised the early days of its operations.

NDB began investment activities in its member countries' currencies to support the development of their domestic capital markets and to diversify the Bank's treasury investment portfolio beyond hard currencies. To date, the Bank has built its treasury infrastructure with adequate capacity to actively participate in the RMB market, including corporate bonds, interest rate derivatives and repo transactions along with deposits. In 2019, the Bank initiated investments in INR Government Securities through the Reserve Bank of India's Scheme for Rupee Investments by Foreign Central Banks. Since the establishment of its domestic bond programme in South Africa, NDB has also started investment activities in South African money market instruments.

Treasury and Portfolio Management team engaged with investors during a seminar at NDB Fourth Annual Meeting

Credit Ratings

Rating drivers:

- Robust and solid capitalisation endowed with subscribed paid-in capital and ample liquidity;
- Strong ability of fund raising;
- Extraordinary shareholders' support and commitment;
- Systemic importance to founding members;
- Sound and prudent risk management, reflecting the Bank's self-imposed prudential rules;
- Very strong level of aggregated expertise and seniority of the Bank's Management team;
- Rapid growth guaranteed by robust demand for financing of infrastructure and sustainable development projects in member countries; and
- Strong preferred creditor status.

Operating with favourable ratings from international credit rating agencies and establishing itself as a reliable borrower in international and domestic capital markets are imperatives of NDB's strategy. During its first five years of operation, the Bank has proved its capacity to successfully apply the financial model of MDBs, leveraging public resources for development finance by obtaining international credit ratings, which are higher than the sovereign credit ratings of its member countries.

NDB has long-term AA+ international credit ratings from Standard & Poor's and Fitch. The Bank also obtained a AAA international rating from Japan Credit Rating Agency in August 2019.[54] In China, NDB received AAA domestic credit ratings from China Chengxin Credit Rating and China Lianhe Credit Rating.

Strong credit ratings were granted to NDB based on the quality of its loan portfolio, sound management practices and governance standards, as well as its prudent risk management framework. The rating agencies also highlighted strong shareholders' support as a key driver for NDB's high credit ratings.

High credit ratings allow NDB to raise funds in the capital markets at low rates, which helps the Bank offer the best long-term value for its borrowers. Strong ratings also give the Bank access to a wider investor base, and serve as an important indicator for NDB's public profile and market positioning, which is of particular importance for a relatively new debt issuer. High international credit ratings also facilitate the Bank's broader access to financial services and products, including hedging and swap transactions.

Credit ratings

	Credit Rating	Outlook
International		
Standard & Poor's	**AA+**	Stable
Fitch	**AA+**	Stable
Japan Credit Rating Agency	**AAA**	Stable
Domestic		
China Chengxin International Credit Rating	**AAA**	Stable
China Lianhe Credit Rating	**AAA**	Stable

54 On January 23, 2020, NDB also obtained a AAA international credit rating from Analytical Credit Rating Agency, a rating agency based in Russia.

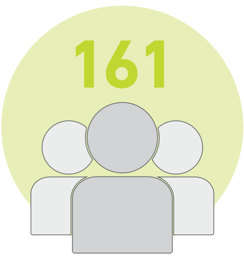
Institutional Development

"NDB's lean and efficient approach to sustainable infrastructure investment is fully in line with the vision articulated by our founding members – the five BRICS countries. We are fully committed to building NDB as an innovative and transparent multilateral development institution that is living up to its name. In this context, the high technical capacity of the Bank's staff and cloud-based technology backbone are essential bricks in a solid foundation for NDB's further growth and development."

Mr. Vladimir Kazbekov
Vice President and Chief Administrative Officer of NDB

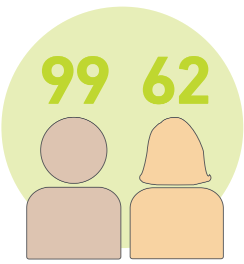
Enhancing Human Resources

Throughout 2019, NDB continued to build an international team of professionals with extensive experience, knowledge and skills.



Employees by category (as at December 31, 2019)

President and Vice Presidents: 5
Full-time staff: 144
Short-term consultants and outsourced staff: 12



Employees by gender (as at December 31)

Male	Female
2019: 99 (61%)	2019: 62 (39%)
2018: 88 (61%)	2018: 56 (39%)

NDB's human resources strategy seeks to ensure that the Bank attracts, nurtures and retains motivated talent who are committed to the Bank's mandate and strategic goals, and add value to the Bank's day-to-day work. As at the end of 2019, the Bank employed 161 staff, including 149 full-time employees, five short-term consultants and seven outsourced employees.

Attracting talent

NDB's total headcount increased by 12% in 2019. This positive dynamic is mainly attributable to the continuous efforts towards staff recruitment and retention. Recruitment of key personnel for NDB's Americas Regional Office (ARO) was completed within the year, while the staff recruitment process for the Bank's Eurasian Regional Centre (ERC) was initiated in late 2019.

NDB is committed to offering a competitive staff compensation and benefits package. In 2019, the Bank conducted a comprehensive review of its compensation and benefits structure, which resulted in an upward adjustment of the salary ranges and the introduction of a home travel benefit. The Bank also enhanced a number of other benefits, including those related to staff members' settlement and resettlement as well as their children's education assistance.

NDB continues to place an emphasis on gender balance, recruiting and retaining female employees at all levels. As at the end of 2019, women accounted for 39% of the Bank's headcount. In addition, the Bank also endeavours to provide valuable career opportunities for young professionals, and conducted a round of entry-level staff recruitment in 2019. By the end of 2019, NDB's young workforce, aged 32 or under, accounted for almost 30% of the Bank's staff.

Developing talent

NDB strives to support professional development of staff through on-the-job skill transfer and role-specific technical training. NDB's employees participated in various training sessions designed to improve their professional competences in relevant fields, including financial and economic due diligence, deal structuring, environmental and social impact assessment, among others. Regular in-house sessions are held to update staff on changes to the Bank's guidelines and practices, as well as the operating environment in member countries.

Placing special focus on staff training and capacity building allows NDB to benefit from the application of up-to-date international practices and technologies in its activities, contributing to enhancing the Bank's operational efficiency and business procedures.

Leveraging Information Technology

Leveraging current and emerging information technology is a cornerstone of NDB's strategy. The Bank develops its IT infrastructure to better serve its clients, to manage internal risks and increase operational efficiency and productivity. Investment in IT, including selection and implementation of appropriate solutions, is driven by NDB's operational plans and verified on an ongoing basis.

Following the "cloud-first" approach, NDB continued to invest in its IT systems in 2019, striving to integrate digital innovation into its activities and services.[55] The Bank implemented a loan management system, which automates back-end processes, minimising operational risks. An electronic data interchange solution with built-in digital cloud signature was also initiated for online submission of loan drawdown requests and straight-through processing in the Bank's back-end systems. Meanwhile, the Bank's e-procurement system was upgraded with additional functions to improve internal process management and external vendor accession. In order to enable centralised management of key documents, NDB purchased a system to digitalise physical documents and facilitate archive tracking.

55 The cloud-based IT system allowed NDB staff to connect and work remotely during the global outbreak of COVID-19 in early 2020. The system ensured the safety and security of staff members as well as the continuity of the Bank's activities and transactions.

Focus of NDB's IT strategy

1. **Enabling end-user capabilities through access to data and services anywhere and at anytime**

   NDB uses cutting-edge technologies to provide the right information to the right people, at the right time, for greater efficiency and productivity of its employees.

2. **Developing or acquiring agile and mission-based information sharing platforms and applications**

   Following a "cloud-first" approach, NDB has chosen to acquire services rather than assets, which means that IT applications used at the Bank are delivered as cloud solutions. This approach allows the Bank to improve service delivery, while at the same time controlling costs. NDB ensures strong governance, including standards and policies, for the cloud services it employs.

3. **Enhancing information security and increasing resilience through cyber security capabilities**

   NDB pays particular attention to information security as new digital imperatives result in new risks that need to be actively managed.

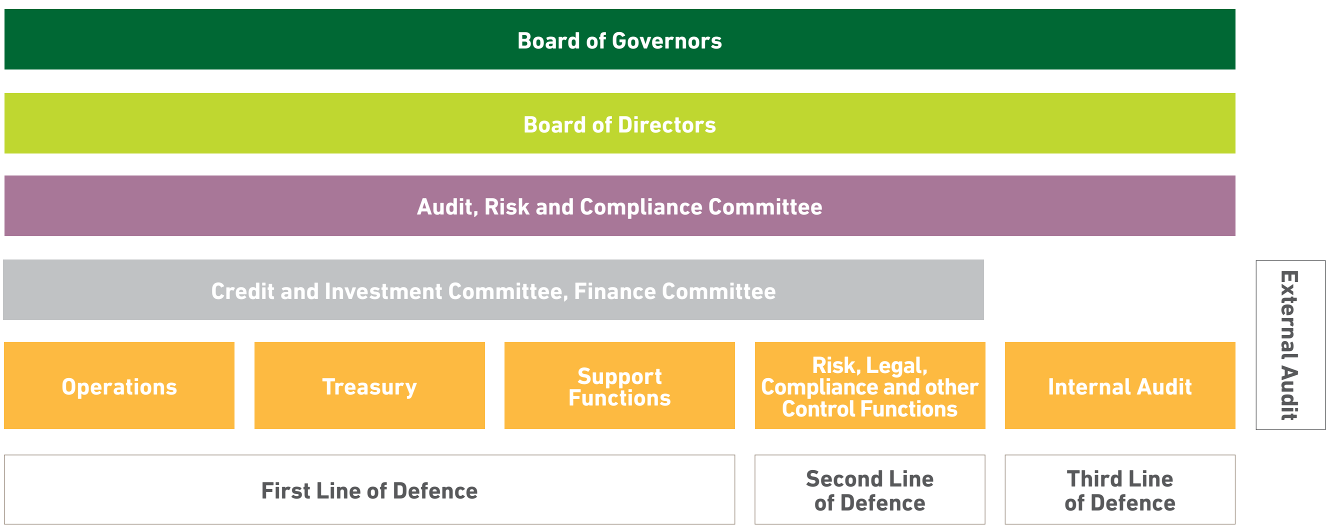
Managing Risks

NDB adopts a conservative and integrated approach to managing risks, both financial and non-financial, as established in the Enterprise Risk Management and Risk Appetite Framework approved by the BoD. This framework provides guidance to strategic planning and day-to-day operational decision-making, to ensure effective, consistent, transparent and accountable management of all types of risks.

According to the framework, the Bank's risk governance structure is based on the "Three Lines of Defence" model. The roles and responsibilities, risk ownership and segregation of duties among NDB's functions have been clearly articulated as part of its overall risk governance architecture.

Within the three lines of defence, frontline business decision makers working on individual projects, transactions, investments and fundraising activities along with supporting functions, such as IT and administration, are the first line of defence. They are responsible for managing risks within their respective areas on an ongoing basis.

NDB's risk governance structure



Functions within the second line of defence have an oversight on the effectiveness of the first-line-of-defence controls. To further strengthen NDB's second line of defence, relevant teams of the Bank spearheaded a number of initiatives in 2019.

- The Bank's independent risk management team manages risks related to NDB's activities, including credit, market, liquidity and operational risks, following leading practices that are aligned with international standards. In 2019, sophisticated bank-wide sensitivity and macro-economic stress tests were introduced to complement the Bank's regular value-at-risk and capital calculations. Comprehensive risk and capital adequacy metrics were also implemented bank-wide to support decision-making processes, based on solid economic rationale.

- NDB's legal team provides counsel to the BoD, Management and staff on legal aspects of the Bank's policies, operations, finance and administration. In 2019, the legal team contributed to the development of key policies and guidelines of the Bank, and continued to promote, in consultation with other divisions, improvements in the key legal documents and working procedures within NDB, in line with the Bank's commitment to operational precision and efficiency. To promote a strong legal culture and share relevant knowledge, legal seminars were offered to Bank staff throughout the year.

- The compliance team at NDB has the responsibility of administering policies approved by the BoD in the areas of compliance management, anti-corruption, anti-fraud and anti-money laundering (AML) as well as the code of business conduct and ethics. To implement these policies, specific procedures for integrity due diligence, debarment and handling of whistleblowing complaints have been formulated. Bank-wide trainings and awareness programmes on these topics have been offered on a regular basis. In 2019, the Bank strengthened its collaboration with the Financial Intelligence Units of the BRICS countries, thereby engaging with a wider AML policy community globally. The engagement was further formalised with the Bank receiving the observer status at the Eurasian Group, a regional body of the Financial Action Task Force.

As the third line of defence, the Bank's internal audit team works to independently evaluate and improve the effectiveness of NDB's risk management, internal control and governance processes through a systematic and disciplined approach. Following a risk-based audit plan, the internal audit team audited 20 key business processes across the Bank in 2019. To further increase operational efficiency, a web-based and cloud-optimised audit management software has been rolled out across the Bank to streamline audit planning, documentation and reporting.

New Headquarters

NDB has witnessed considerable progress in the construction of its new headquarters since works began at the building site along the Huangpu River in Shanghai, China, in September 2017. By the end of 2019, 60% of the mechanical and engineering, and 80% of façade glass installation were completed. The finished building is expected to be delivered by August 2021, which will mark a milestone in the Bank's institutional development.

Reflecting the Bank's focus on sustainability, the new headquarters are designed to be green and efficient, incorporating environmentally friendly technologies such as:

- solar photovoltaic technology,
- rainwater harvesting system,
- green drip irrigation system,
- automatic sun tracking system, and
- automatic wind extraction.

The building is designed to achieve China's three-star green and health building ratings and Leadership in Energy and Environmental Design-New Construction (LEED-NC) platinum rating.

As the host city for NDB's headquarters, the Shanghai Municipal People's Government has been providing the Bank with committed support to ensure the successful completion of the new headquarters building project.

New headquarters under construction in Shanghai, China

Installing the façade glass in NDB's new headquarters

Strengthening Regional Presence

Establishing regional offices in NDB's member countries is a strategic priority for expanding the Bank's operations and strengthening their alignment with the development priorities of member countries.

As outlined in NDB's General Strategy: 2017–2021, regional offices are supposed to play a core role of identification and preparation of bankable projects across NDB's member countries. They will also be a physical presence of the Bank in the regions where it operates, facilitating cooperation with strategic partners and enhancing the Bank's overall impact.

In 2019, NDB made notable progress in maximising the capacity of the regional office in South Africa and laying essential groundwork for the official opening of offices in Brazil, Russia and India.

NDB's regional presence

Africa Regional Centre

The first regional office of NDB – the Africa Regional Centre (ARC) – was opened in Johannesburg, South Africa, on August 17, 2017. The ARC has been instrumental in enabling the Bank to scale up lending in South Africa. Since the opening of the ARC, the share of financing commitments by the Bank to clients in South Africa increased significantly from 5% of the Bank's cumulative approvals at the end of 2017 to 16% at the end of 2019. Insights from the Bank's experience of establishing and setting up the operations of the ARC will provide key lessons for the Bank's offices in its other member countries.

Americas Regional Office

The agreement on the hosting of the second regional office of the NDB – the ARO in São Paulo, Brazil, with a sub-office in Brasília – was signed on July 26, 2018 during the Tenth BRICS Summit in Johannesburg. In July 2019, NDB began to build the ARO team, hiring its Director General, as well as senior and support staff based in São Paulo and Brasília. In a short period of time, NDB's team in Brazil has started fully performing the functions of NDB's representative unit in Brazil, and contributed significantly to building a strong pipeline and healthy portfolio of projects in the country, including both sovereign and non-sovereign operations. The ARO is ready for its official launch upon the completion of formalities.

Eurasian Regional Centre

NDB and the Government of Russia signed the Agreement on the Hosting of the NDB ERC in Moscow, Russia on the sidelines of the 11th BRICS Summit in Brasília on November 14, 2019. The signing was presided over by President Kamath and Deputy Minister of Finance of Russia, Chairperson of NDB's BoD, Mr. Sergei Storchak. Opening of the ERC will help strengthen the Bank's presence in the region and create new opportunities for NDB's project pipeline development, knowledge sharing and capacity building. Preparations for the ERC are at an advanced stage and the office in Moscow is expected to open in 2020.

The opening of the ERC is expected to be followed by the launch of NDB's office in India later in 2020. The offices in Russia and India will learn from the preparation for and establishment of the ARC and the ARO to support their swift opening and undertaking of operations.

President Kamath and Mr. Sergei Storchak, Deputy Minister of Finance of Russia, signed the agreement on the hosting of the NDB ERC in November 2019


Nord-Hydro Project in Karelia, Russia

Building and Implementing Partnerships

As envisioned by the AoA, NDB seeks to complement the efforts of multilateral and regional financial institutions to support global growth and development. The Bank places a strong emphasis on building and implementing effective partnerships, as promoted by SDG 17 on Partnerships for the Goals, to accelerate member countries' endeavours dedicated to sustainable development.

NDB's operations are facilitated by cooperation agreements with a wide range of development partners. To date, NDB has signed a total of 31 memoranda of understandings for general cooperation, out of which three were signed in 2019.

Food and Agriculture Organization of the United Nations

Strengthening the collaboration among countries, United Nations agencies and development finance institutions is of paramount importance to mobilise the resources needed to achieve the SDGs. To this end, NDB and the Food and Agriculture Organization of the United Nations (FAO) established a memorandum of understanding on June 17, 2019, aiming to drive progress on achieving the institutions' shared objectives of growth and development, and in particular to strengthen the alignment of their respective activities related to water, land and agriculture in support of the 2030 Agenda.

African Development Bank

NDB and African Development Bank (AfDB) signed a memorandum of understanding on October 18, 2019, to formalise their partnership and promote general cooperation between the two institutions. Among other modalities of collaboration, the agreement facilitates cooperation between NDB and AfDB to jointly identify, prepare and co-finance projects in countries of mutual interest.

Brazilian Development Bank

On November 13, 2019, NDB and BNDES signed a new memorandum of understanding to continue and enhance the existing cooperation between the two institutions. As a natural continuation of the three-year memorandum signed in 2015, the new agreement aims to expand the cooperation framework between the two institutions and promote joint initiatives across a wide range of areas of mutual interest.

NDB also entered into agreements and joint declarations with development partners. On September 22, 2019, NDB, together with eight other MDBs, issued the "High Level MDB Statement" at the United Nations Secretary-General's Climate Action Summit held at the headquarters of the United Nations.[56] The statement outlines the commitment by MDBs to increase financing for climate-related projects in low and middle income economies to help them attain goals under the Paris Agreement.

President Kamath and AfDB President Mr. Akinwumi Adesina at the signing of the memorandum of understanding in October 2019

56 Other signatory MDBs include ADB, AfDB, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, Islamic Development Bank, Inter-American Development Bank Group, European Investment Bank and World Bank Group.

President Kamath addressed the joint workshop with FAO in February 2019

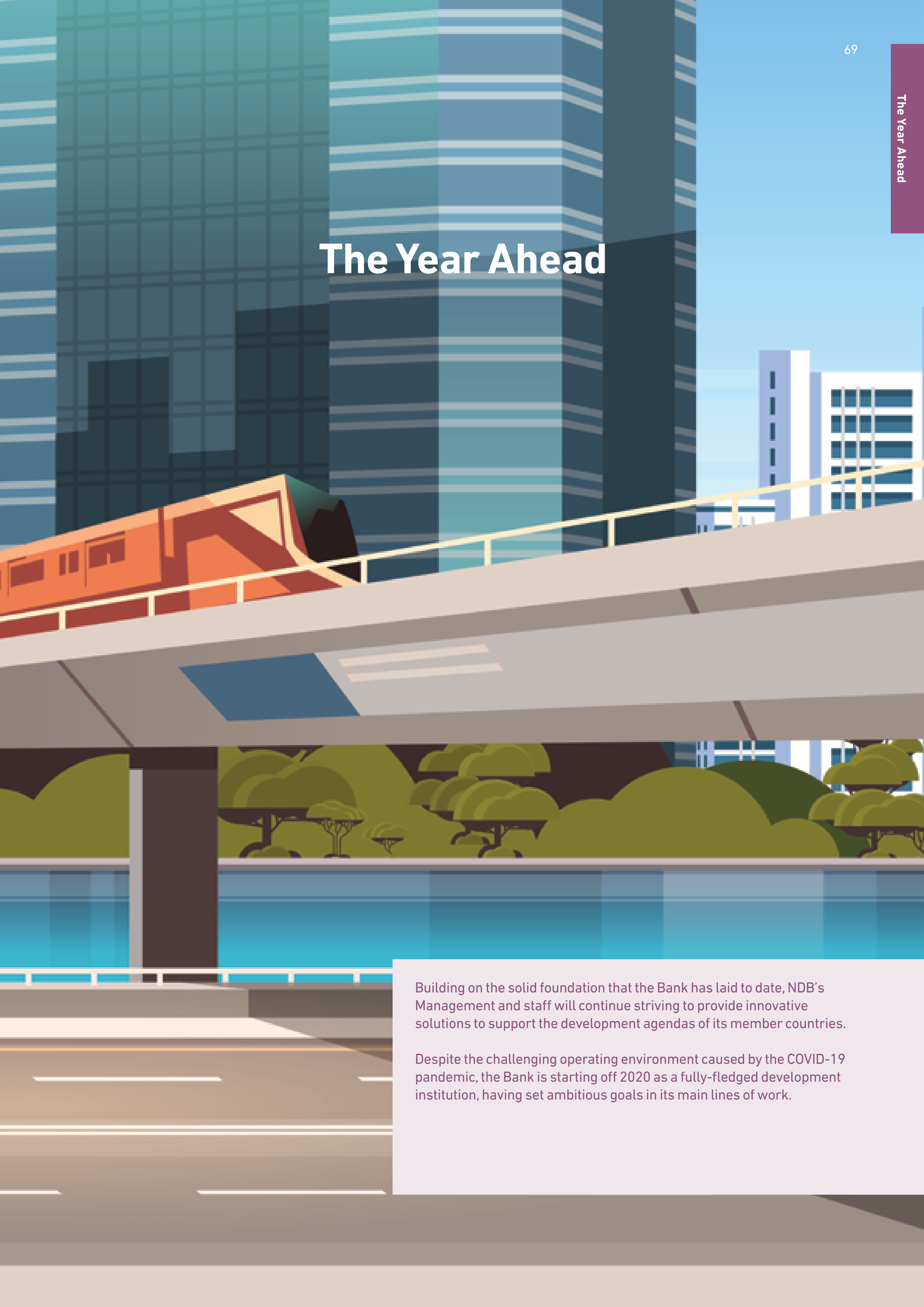
Mr. Sarquis, Vice President and CRO, met with Mr. Dongyu Qu, Director-General of FAO in December 2019 (image credit: FAO)

Workshops on Development Impact and the SDGs by NDB and FAO

In 2019, NDB and FAO co-hosted two Workshops on Development Impact and the SDGs, focused on technical knowledge sharing to strengthen alignment of efforts among development partners with SDGs across the sectors of irrigation, water resource management and sanitation.

The first workshop, held in February 2019 at NDB's headquarters in Shanghai, China, revealed unique perspectives from different spheres of the global development community on how to address the challenges related to SDG 6 on Clean Water and Sanitation by promoting interventions that go beyond business-as-usual. The second workshop, held at FAO's headquarters in Rome, Italy, in December 2019, built on the lessons learned in Shanghai and addressed how practically to design and implement such interventions through effective partnerships in the spirit of SDG 17 on Partnerships for the Goals, and drive progress toward achieving the targets of SDG 6 on Clean Water and Sanitation and SDG 2 on Zero Hunger.

Together, the workshops convened over 100 participants. They included government representatives from each of the BRICS nations and other developing countries, specialised United Nations agencies and programmes, international organisations, development finance institutions and civil society.



The Year Ahead

Building on the solid foundation that the Bank has laid to date, NDB's Management and staff will continue striving to provide innovative solutions to support the development agendas of its member countries.

Despite the challenging operating environment caused by the COVID-19 pandemic, the Bank is starting off 2020 as a fully-fledged development institution, having set ambitious goals in its main lines of work.

The Year Ahead

NDB's new headquarters in Shanghai, China

Sustainable expansion of operations

The Bank is getting closer to a steady state of operations, and is targeting incremental project approvals of over USD 10 billion in 2020, another significant contribution to its member countries' development efforts in line with their commitments to the 2030 Agenda and the Paris Agreement. As NDB develops in its ability to prepare and implement complex projects, the Bank will continue to expand its portfolio by offering increasingly sophisticated and innovative financial instruments that can satisfy its clients' diverse financing needs.

Aligned with its mandate, the Bank is fully committed to leverage its demand-driven approach and provide tailor-made solutions to its member countries to address the immediate challenges posed by the COVID-19 pandemic as well as the associated adverse impacts on their long-term social and economic development. A RMB 7 billion emergency assistance programme loan to China in combating COVID-19 has already been fully disbursed in April 2020, and a USD 1 billion emergency loan was approved for India. Similar facilities are being processed to provide timely support to other member countries.

Despite the growing size of its operations, NDB will remain a lean organisation, committed to operating at speed, without compromising quality. Whenever possible, the Bank will continue to use its member countries' own systems to manage projects' environmental and social impacts and risks as well as to ensure the best use of public resources. NDB will also enhance the provision of financing in its member countries' local currencies and is ready to expand these operations according to demand.

NDB will continue to expand its network of regional offices. This will reinforce its engagement with clients, improve its understanding of each market's specific needs and conditions and strengthen its project sourcing and identification capabilities. Having an on-the-ground presence has proven to be effective in scaling up NDB's operations in South Africa and Brazil, and the Bank seeks to expand this network further in 2020.

Increasing diversification of treasury products and investment

With the receipt of new instalments of founding members' contribution to paid-in capital and the issuance of additional debt securities, NDB will further deploy its treasury investment strategy and make the treasury function a profit centre without adding any significant risk. In 2020, NDB plans to invest in money market funds to strengthen its liquidity management capabilities while generating returns.

NDB will also broaden its funding activities, both geographically and in terms of currency denomination. As part of its risk diversification strategy in the face of interest rate volatility, the Bank intends to continue issuing securities denominated in its member countries' currencies in 2020. This is also in line with the Bank's strategy to promote the development of domestic capital markets in its member countries. A RMB 5 billion Coronavirus Combating Bond has been issued in the China Interbank Bond Market. The Bank will actively participate in both onshore and offshore markets in pursuit of cost-effective sources of funding and with the aim to meet the requirements and demand from investors.

NDB will strive to attain and maintain high credit ratings and focus on keeping operational costs low in order to provide highly competitive lending rates. The Bank will also explore the use of different instruments, such as guaranteed products as a way to mobilise the participation of other financial institutions in infrastructure financing.

Generating and disseminating knowledge

NDB's General Strategy envisages that research and knowledge dissemination will be important aspects of the Bank's activities. In this regard, the Bank has been carrying out applied research on development issues connected to its mandate and business model. The Bank will also continue to advance its knowledge on the economies of its member countries. As NDB's capacities evolve, the Bank will generate innovative research and disseminate knowledge that can benefit its operations, its member countries, partner institutions and the society as a whole.

Investing in human resources

The Bank will continue to scale up human resources in line with its growth plan and business volume. In 2020, a steady and controlled headcount growth is expected in areas of strategic priority and in NDB's regional offices. Talent acquisition will target at highly specialised skills and technical competencies along with young professionals in selected business areas, to complement the skills mix of the current workforce and better serve emerging business needs.

NDB's organisation structure will remain adaptive and lean to enable the Bank to fulfil its objectives in the most efficient manner. The Bank will continue to review its key human resources policies and work towards the formulation of a human resources strategy to remain a competitive and attractive employer for global talent. The Bank will also lay out a more focused approach to learning and development of its staff members and embark on new technology solutions for all activities related to human resources.

Expansion of membership

In 2020, NDB will take major steps towards expanding its membership. This will allow the Bank to extend its development efforts, knowledge and technological capacity to the benefit of a larger number of countries and their citizens.

Discussions and negotiations with the first batch of potential new members are expected to take place gradually, in consultation with the BoD, until a request for admission is submitted for the BoG's approval.

Continuous progress in strategy implementation and monitoring

Following the strategy implementation review conducted in 2019, NDB will continue to implement its General Strategy: 2017–2021. At the same time, it will monitor progress made along its main lines of work and gather information on its ever-evolving operating environment, including on the challenges caused by the COVID-19 pandemic and the opportunities brought by the digital economy and new technologies. Lessons learnt will enable the Bank to fully assess the implementation of its current strategy by 2021, as well as formulate and approve a fit-for-purpose strategy for the second five-year period from 2022 to 2026, in line with the Bank's mandate and member countries' aspirations. NDB also seeks to strengthen its evidence-based development results management framework in order to fully account for and report on the development impact of its activities, including on their alignment with the SDGs and the Paris Agreement.

Lesotho Highlands Water Project

Management Discussion and Analysis

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This report should be read together with NDB's financial statements. The Bank undertakes no obligation to update any forward-looking statements.

Executive summary

Financial highlights

Net interest income

For the year ended December 31, 2019, the Bank reported net interest income of USD 197.7 million (2018: USD 109.8 million). This increase was driven by USD 194.8 million of interest income from banks and debt instruments measured at amortised cost (2018: USD 113.2 million) and USD 35.7 million of interest income from loans and advances (2018: USD 10.2 million). NDB's larger treasury investment portfolio can be attributed to the additional capital contributions received, as well as proceeds from the Panda Bond received during the year. Interest expense on bonds issued amounted to USD 24.7 million (2018: USD 13.6 million); the main contributor to interest expenses for the year. This figure was approximately doubled compared to the previous year in light of the Panda Bond issuance.

Net operating profit

The 2019 financial year was the fourth full year of NDB's operations. For the year ended December 31, 2019, the Bank reported an operating profit of USD 150.5 million (2018: USD 72.0 million). To support the Bank's growth and development, salaries related to an expanding employee headcount was a predominant driver in the increase of operating costs. Additionally, operating costs increased in line with NDB's focus on implementing technological enhancements across the Bank, such as its loan management system, to support lean and agile operations.

Portfolio performance

Approved project portfolio

In 2019, the Bank continued to deliver on its mandate to contribute to the growth and development of its member countries by investing in infrastructure and sustainable development projects. NDB increased its cumulative project approvals to USD 15.3 billion (2018: USD 8.1 billion) by the end of 2019, almost doubling its approved project portfolio compared to the prior year. The project approvals for the year included the Bank's inaugural equity fund investments of up to USD 100.0 million in Brazil – a key milestone in the development of the Bank's financial products.

The Bank maintained a balanced distribution of its approved project portfolio across its key areas of operation with a marginal increase in urban development and transport infrastructure projects. The total number of projects approved until December 31, 2019 was 53 (of which two were cancelled);[57] a 71% increase from the 31 projects (of which one was cancelled)[58] approved till 2018.[59] Net of cancellations, NDB's approved project portfolio amounted to USD 14.9 billion (51 projects) by the end of the 2019 financial year (2018: USD 7.8 billion; 30 projects). Unless otherwise stated, further discussions on the Bank's operations are based on the approved project portfolio net of cancellations.

Treasury investment portfolio

At December 31, 2019, the total investment portfolio amounted to USD 6.3 billion (2018: USD 4.8 billion), an increase of USD 1.5 billion during the 2019 financial year. The investment portfolio is aligned with the liquidity requirements of the Bank such that sufficient cash resources are available to fund the operational needs of the Bank and meet anticipated disbursement requirements. Throughout its four and a half years of operations, NDB has been investing only with highly rated counterparty banks and has established sound working relationships with them during this time.

Borrowings

The Bank is predominantly financed through its members' paid-in capital and from borrowings raised in the capital markets. During the 2019 financial year, NDB successfully issued a RMB 3.0 billion (USD 448.0 million)[60] bond under the Panda Bond programme. As at December 31, 2019, RMB 434.4 million (USD 62.4 million) of the Panda Bond proceeds had been utilised to fund various projects denominated in RMB and the remainder invested in high-quality investments. In addition to this bond, NDB's borrowing portfolio as at December 31, 2019 included its RMB-denominated Green Bond, which was issued in 2016, unsecured short-term borrowings from banks and zero-coupon note issuances.

57 Relates to the USD 250 million loan to Canara Bank (India) for its Renewable Energy Financing Scheme, approved in 2016 and cancelled in 2018 and the USD 68.8 million loan to the Russian Federation for its Ufa Eastern Exit Project, approved in 2017 and cancelled in 2019.
58 Relates to the USD 250 million loan to Canara Bank (India) for its Renewable Energy Financing Scheme, approved in 2016 and cancelled in 2018.
59 The two loans to EDB and IIB for on-lending to the Nord-Hydro project in Russia are counted as two separate approvals in this Annual Report, instead of one as in the previous reports.
60 As per RMB/USD exchange rate prevailing on February 22, 2019 – the date of issuance.

At the end of the financial year 2019, the total fair value of the Bank's bond portfolio was USD 882.8 million (2018: USD 443.8 million) which was an almost 100% increase as a result of the RMB-denominated Panda Bond issuance. NDB's bond portfolio value at the end of 2019 included net gains of USD 20.3 million (2018: USD 5.2 million) which can be attributed to the weakening in RMB/USD exchange rate and changes in market interest rates during the financial year.

Additionally, in 2019, NDB established its debut ECP programme that granted the Bank access to short-term funding in the capital markets to cover liquidity management requirements. At the end of the year, the nominal value of the outstanding borrowing amounted to USD 627.0 million.

In direct alignment with the funding strategy to access both international and its member countries' capital markets, NDB registered a ZAR 10.0 billion and RUB 100.0 billion bond programme in South Africa and Russia respectively as well as a USD 50.0 billion EMTN programme.

Equity

As at December 31, 2019, USD 6.2 billion (2018: USD 5.0 billion) in total paid-in capital had been received by the Bank from its member countries in accordance with the payment schedule set out in the AoA. The timely receipt of capital contributions demonstrates the commitment and support NDB receives from its members.

Moreover, the Bank has been consistently profitable since its inception and, as at December 31, 2019, had built up a reserve of retained earnings of USD 257.8 million. These reserves will be used to support the Bank's operation in its execution of the General Strategy: 2017–2021.

Development impact and sustainability

NDB's mandate is to mobilise resources for infrastructure and sustainable development projects in BRICS and other EMDCs. The Bank appraises and selects the investment projects it finances based on a range of criteria that go beyond financial considerations, including sustainability credentials such as the economic, environmental and social impacts of the project.

NDB's strategy

The 2019 financial year witnessed NDB's continuous efforts to achieve its strategic goals, building on the strong foundation that had been laid since its inception in 2015. As envisaged by its founding members, the Bank has now become a fully-fledged, dynamic and trustworthy institution. Against the backdrop of the changing development landscape of the 21st century, NDB is strongly set to deliver on its mandate of mobilising resources for infrastructure and sustainable development projects for global growth and development.

2019 marked the halfway point in the implementation of NDB's General Strategy: 2017–2021. Its main orientations have been integrated into all aspects of NDB's policies, processes and activities. The Bank's business has become increasingly mature and diversified, evolving from financing mainly sovereign and sovereign-guaranteed operations to supporting private sector ones; from offering largely hard currency funding to providing a more substantial share of funds in local currencies; from making only traditional loans to utilising other financial instruments such as equity investments; and from providing corporate loans to considering project finance in the private sector space.

In 2019, successful efforts were made to diversify the Bank's operations among its member countries as well as across the key areas of operation outlined in the General Strategy: 2017–2021. The Bank continued to base its lending on a long-term and broad assessment of economic, environmental and social returns, which goes beyond direct financial calculations. By investing in the strategically selected key areas, the Bank helps bridge the huge infrastructure financing gap in its member countries. This is expected to deliver positive transformative impacts that contribute to member countries' efforts to achieving the SDGs as well as the goals of the Paris Agreement.

As set in the General Strategy: 2017–2021, the Bank has been continuously employing a demand-driven approach and working in partnership with countries towards achieving their development priorities. Over the past years, the Bank has demonstrated that the use of country systems to protect vulnerable people and the environment, as well as to ensure the optimal use of public resources, is feasible in NDB's operating context. By using the national systems of the member countries, the Bank was also able to strengthen their capacity and achieve better long-term development results.

In 2019, as in the earlier years, the Bank collaborated with peer MDBs, as well as international organisations and national development institutions of member countries, to deliver its operations, exchange knowledge and build capacity in areas such as project preparation and development results reporting. NDB's efforts to implement its partnership agreements can be illustrated by the increasing number of operations with other development institutions through on-lending, co-financing and parallel financing.

Within its institutional framework, NDB has ingrained several critical elements such as focus on developing young talent in its human capital, harnessing the power of new technology and learning from peers, as well as building internal capacity to work at speed without sacrificing quality. Going forward, this institutional mindset will enable NDB to evolve within the business environment in which it operates, and will help bring a stronger development impact for the benefit of member countries and their citizens.

Financial results

Approved project portfolio

Approved project portfolio: sovereign and non-sovereign (net of cancellations)

USD m	As at Dec 31, 2019	As at Dec 31, 2018	Movement	% change
Sovereign loans	**11,935**	6,428	5,507	86
Non-sovereign loans	**2,898**	1,400	1,498	107
Equity investments	**100**	–	100	–
Approved projects	**14,933**	7,828	7,105	91
Disbursements	**1,539**[61]	625	914	146

As at December 31, 2019, NDB's approved project portfolio amounted to USD 14.9 billion (2018: USD 7.8 billion), a year-on-year increase of USD 7.1 billion. This 91% increase includes approvals for sovereign and non-sovereign loans, as well as the Bank's first equity investment approval.

Approved loan portfolio

The number of non-sovereign loans grew by 71% (2019: 12 loans; 2018: 7 loans), however, by value, the portfolio more than doubled (107% year-on-year increase) to USD 2.9 billion from USD 1.4 billion in 2018. This is illustrative of NDB's target to expand its non-sovereign lending having established sound operational capacity by creating a solid foundation based on sovereign lending.

The sovereign loan portfolio continued its expansion from USD 6.4 billion in 2018 to USD 11.9 billion in 2019 (86% year-on-year increase). During 2019, a strong focus was placed on distributing the portfolio of loan approvals more equitably across all five member countries.

Brazil and South Africa's share in the total loan portfolio grew by 2% (2019: 10%; 2018: 8%) and 7% (2019: 16%; 2018: 9%) respectively while Russia's, India's and China's portfolios reduced to 18% (2018: 19%), 28% (2018: 29%) and 28% (2018: 35%) respectively compared to 2018.

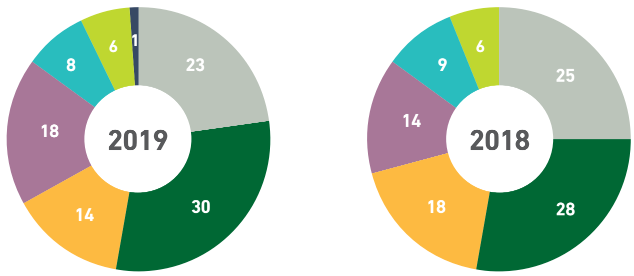
Disbursements

Supported by paid-in capital from its member countries and access to capital markets through its successful RMB 3.0 billion Panda Bond issuance, the Bank effectively mobilised funds for its disbursements during 2019. As at December 31, 2019, cumulative loan disbursements were USD 1.5 billion (2018: USD 624.6 million), which is a 146% year-on-year increase. This can be attributed to 17 additional loans disbursing for the first time; which brought the total number of disbursing and disbursed loans to 26. NDB expects this trend to continue in the year 2020 as borrowers make disbursement requests to meet funding requirements through the project cycle.

Equity fund investments

On December 16, 2019, NDB received its maiden approval from its BoD to invest up to USD 100.0 million in equity investments in Brazil. This project demonstrates NDB's responsiveness to the development objectives of its member nations, and how the Bank is continually evolving its financial products to meet these needs. It is expected that other equity investments in funds with strategies to support and catalyse investments, which align with NDB's strategic objectives, will be explored in all of the Bank's member countries. Through these funds, NDB hopes to encourage greater investment in infrastructure and sustainable development projects by investing alongside other investors and crowding in the private sector.

Approved project portfolio by key area of operation (as at December 31)
%



%	2019	2018
Clean energy	**23**	25
Transport infrastructure	**30**	28
Irrigation, water resource management and sanitation	**14**	18
Urban development	**18**	14
Environmental efficiency	**8**	9
Social infrastructure	**6**	6
Multi-theme	**1**	–

The key areas of operations, as set out in NDB's General Strategy: 2017–2021, are carefully considered during the Bank's initial project assessment, leading to the final submission to the BoD for approval. While approved projects increased by USD 7.1 billion between 2018 and 2019, the split between the key areas of operation remained similar at the end of each year. The equity investment project has been classified as covering multiple key areas as, under the fund's investment strategy, a range of projects is expected to be covered. At the same time, NDB embraced the concept of impact investment, bringing a range of positive and broad-based benefits to its member countries and their people.

61 Includes repayments.

Approved project portfolio by area of operation

USD m	As at Dec 31, 2019	As at Dec 31, 2018
Clean energy	3,519	1,937
Environmental efficiency	1,200	700
Irrigation, water resource management and sanitation	2,080	1,426
Social infrastructure	960	460
Transport infrastructure	4,421	2,175
Urban development	2,653	1,130
Multi-theme	100	–
Total	**14,933**	**7,828**

Highlights of statement of profit or loss

Financial information of statement of profit or loss

USD '000	As at Dec 31, 2019	As at Dec 31, 2018	Movement	% change
Interest income from banks	194,079	113,191	80,888	71
Interest income from loans and advances	35,719	10,209	25,510	250
Interest income from debt instrument measured at amortised cost	757	–	757	–
Total interest income	230,555	123,400	107,155	87
Interest expense on short-term borrowings	(53)	(7)	(46)	657
Interest expense on bonds issued	(24,664)	(13,590)	(11,074)	81
Interest expense on note payables	(8,091)	–	(8,091)	–
Interest expense on lease liabilities	(4)	–	(4)	–
Net interest income	197,743	109,803	87,940	80
Net fee income	1,567	418	1,149	275
Net interest income after fees	199,310	110,221	89,089	81
Operating expenses	(51,271)	(37,246)	(14,025)	38
Impairment provision	(2,073)	(3,758)	1,685	(45)
Foreign exchange losses and net gains on financial intruments at fair value through profit or loss	4,511	2,820	1,691	60
Operating profit for the year	**150,477**	72,037	78,440	109

Interest income from loans and advances

Interest income from loans and advances has increased from USD 10.2 million in 2018 to USD 35.7 million in 2019 due to higher disbursements during the year. This increase in the interest income on loans is attributable to NDB disbursing additional 17 loans during the 2019 financial year (2019: 26 loans; 2018: 9 loans). Cumulative disbursements increased to USD 1.5 billion from USD 625.0 million in 2018.

In 2019, 19 loans became effective (all conditions precedent were met to qualify for loan drawdown) bringing the total number of effective loans to 32 (2018: 13 loans effective).

Interest expense on bonds issued

The interest expense on the RMB 3.0 billion Green Bond amounted to USD 13.4 million for the current year, marginally down from the USD 13.6 million bond expenses incurred in 2018. The year-on-year difference was due to the weakening of RMB against USD. Further, the interest expense related to the Panda Bond amounted to USD 11.3 million.

Net fee income

Net fee income of the Bank comprises front-end fees and commitment fees.

NDB charges a front-end fee to the borrowers on the date of the first drawdown and the income is recognised over the life of the loan. The increase in front-end fees income from USD 0.2 million in 2018 to USD 0.5 million in 2019 is attributable to the 17 projects which saw their first drawdowns during 2019.

Commitment fees are levied on the accrued portion of the undisbursed loan balance to cover the cost of keeping adequate liquidity to meet the disbursement needs of the Bank's borrowers. Commitment fees recognised during the year were USD 1.0 million compared to USD 0.3 million recognised in the financial year 2018.

Operating expenses

The growth of NDB in the 2019 financial year has resulted in operating expenses increasing to USD 51.3 million compared to USD 37.2 million the year before. The expansion of the scope and scale of the Bank's operations is the primary reason for the concomitant increase in staff, technology and other operating expenses.

Employee headcount increased by 21 additional full-time employees during the 2019 financial year. Accordingly, the total increase in staff costs of USD 7.9 million is attributable to the following:

- an increase of USD 6.4 million in salaries and allowances (2019: USD 25.8 million; 2018: USD 19.4 million); and
- an increase of USD 1.6 million in other benefits (2019: USD 7.5 million; 2018: USD 5.9 million).

The year-on-year increase in technology costs from USD 1.8 million in 2018 to USD 4.0 million in 2019 was a result of the implementation of the loan management system, expansion of the virtual desktop infrastructure, IT set up costs for the Bank's ARO in São Paulo with a sub-office in Brasília and the procurement of other risk management tools.

Impairment provision

The Bank recognises a loss allowance against loans and other exposures to reflect any expected credit losses (ECL) in accordance with IFRS 9. As at December 31, 2019, the Bank had an accumulated ECL provision for losses on loans and other exposures of USD 5.9 million (2018: USD 3.8 million). The increase in impairment allowance reflects the higher number of disbursements in 2019, particularly related to non-sovereign projects loans, as well as the changes in projected drawdown for the financial year 2020. Furthermore, the impairment provision took into consideration the probability of default primarily due to changes regarding forward-looking information.

Foreign exchange losses and net gains on financial instruments at fair value through profit or loss

At the end of the 2019 financial year, foreign exchange losses and fair value gains amounted to USD 4.5 million (2018: USD 2.8 million). This movement predominantly relates to the following:

- Foreign exchange losses of USD 17.4 million (2018: USD 5.0 million loss) primarily reflects a weakening RMB/USD exchange rate and increase in the foreign currency exposures primarily in the form of loans and deposits; and
- Net gains on financial instruments at fair value through profit or loss of USD 21.9 million in 2019 (2018: USD 7.8 million gain) which was driven by fair value adjustments on the liabilities of the Green Bond, the Panda Bond and derivatives (which is reported at fair value through profit and loss).

To manage and limit the effects of risks associated with fluctuating exchange and interest rates, NDB has entered into derivative contracts with highly-rated counterparties to hedge the interest rate and foreign exchange risks arising from the Green Bond and Panda Bond issuance.

Treasury investment activities

Interest income from investment portfolio

The Bank's interest income generated from its treasury portfolio, i.e. interest income from banks and debt instruments measured at amortised cost, amounted to USD 194.8 million for the financial year 2019, compared to USD 113.2 million earned in 2018. The movement of USD 81.6 million represents a 72% year-on-year increase, which can be attributed to an increase in yields on investments and an overall increase in the investment portfolio due to additional paid-in capital received and undisbursed proceeds of the RMB 3.0 billion Panda Bond.

Investment portfolio

Treasury activities are conducted with the primary objective of protecting the capital invested and ensuring that the Bank can meet its payment obligations on time and in full. As at December 31, 2019, the net investment portfolio of the Bank totalled USD 6.3 billion (2018: USD 4.8 billion). The USD 1.5 billion year-on-year growth of the portfolio value can largely be explained by the following cash inflows and outflows for the 2019 financial year:

Cash inflows:

- Receipt of USD 1.2 billion paid-in capital received for the year;
- Proceeds of RMB Panda Bond amounting to RMB 3.0 billion (USD 0.4 billion);[62]
- Proceeds from issuance of note payables amounting to USD 1.1 billion; and
- Proceeds from issuance of short-term borrowings amounting to USD 0.1 billion.

Cash outflows:

- Disbursements amounting to USD 0.9 billion; and
- Repayment of note payables of USD 0.5 billion.

The Bank places investments with highly rated counterparty banks in Mainland China, Hong Kong and Singapore and maintains a sufficient level of liquidity to meet anticipated cash flow requirements.

Borrowing activities

NDB seeks to be a regular issuer in both international and local markets of its member countries with a view to establishing a strong credit history and ensuring better liquidity and diversification opportunities for investors. Seeking funding in USD-denominated instruments and other hard currencies is an important facet of NDB's funding toolkit, however, so is local currency borrowing. Raising funding in the domestic markets of its member countries allows NDB to reduce its currency mismatch risks, and also to obtain funding at attractive costs using a wide range of fundraising instruments in different markets. Thus, during the 2019 financial year, NDB registered several borrowing programmes which is summarised in the table below:

Month	Name of programme	Size
January 2019	Panda bond programme	RMB 10.0 billion
April 2019	ECP programme	USD 2.0 billion
April 2019	ZAR bond programme	ZAR 10.0 billion
November 2019	RUB bond programme	RUB 100.0 billion
December 2019	EMTN programme	USD 50.0 billion

On January 9, 2019, NDB became the first overseas entity to establish an onshore RMB bond programme according to the Interim Measures for the Administration of Bond Issuance by Overseas Institutions in the National Interbank Bond Market (the Measures).[63] Subsequently, on February 22, 2019, the Bank became the first international financial institution to issue bonds under the Measures with a RMB 3.0 billion issue divided into two tranches of 3-year (RMB 2.0 billion) and 5-year (RMB 1.0 billion) tenors. Leveraging its strong international and domestic Chinese credit ratings, NDB was able to achieve highly favourable pricing to which the benefit would be passed onto the Bank's borrowers. The proceeds of RMB 3.0 billion (USD 448.01 million)[64] from the issuance of Panda Bonds have been utilised to the extent of RMB 434.4 million (USD 62.4 million) to fund various projects denominated in RMB.

In April 2019, NDB established its debut ECP programme for liquidity management purposes where it can raise short-term funding up to USD 2.0 billion. As at December 30, 2019, the nominal value of the outstanding borrowing on this programme totalled USD 627.0 million with an average maturity of 3.3 months. The ECP programme allows the Bank to access short-term funding in capital markets in different currencies with the low cost of funds and low roll-over risk associated with its high ratings. Furthermore, the ECP assists the Bank in establishing an international presence with the international investor community, which will be useful for future funding programmes.

As a result of the above borrowing initiatives, as at December 31, 2019, the borrowing portfolio of the Bank comprised unsecured bank borrowings, note payables (including notes issued through the ECP programme), RMB Green Bond and RMB Panda Bond totalling USD 1.6 billion (2018: USD 0.4 billion); a 264% year-on-year increase.

Local currency financing is a key focus area of the Bank and it intends to be a regular issuer in the local markets of its member countries. This is with a view to establishing a strong credit history and ensuring better liquidity and diversification opportunities for investors. Within this context, NDB registered a ZAR 10.0 billion and RUB 100.0 billion bond programme in South Africa and Russia respectively and intends to register similar programmes in India and Brazil.

Equity/capital contributions

As at December 31, 2019, all the instalments due in respect of paid-in capital had been received in accordance with the schedule in the AoA. Total paid-in capital received by the end of the 2019 financial year amounted to USD 6.2 billion. Furthermore, receipts in respect of the fifth instalment, due by January 3, 2020, had been received from all member countries ahead of schedule. Brazil, Russia, China and South Africa's respective fifth instalments of USD 300.0 million were received before the close of the 2019 financial year and India's instalment received on January 2, 2020. The Bank will ensure that these contributions are utilised to support bankable projects and the development agendas of member countries according to the Bank's mandate and strategy.

Members' contributions received to date

USD m	Cumulative paid-in capital due by Dec 31, 2019[65]	Cumulative paid-in capital received as at Dec 31, 2019	Difference	Remark
Brazil	1,000	1,300	300	Note 1
Russia	1,000	1,300	300	Note 1
India	1,000	1,000	–	Note 2
China	1,000	1,300	300	Note 1
South Africa	1,000	1,300	300	Note 1
Total	**5,000**	**6,200**	**1,200**	

Note 1:
Fifth instalment of USD 300.0 million, due January 3, 2020, received in advance during the 2019 financial year.

Note 2:
Fifth instalment of USD 300.0 million, due January 3, 2020, received in advance on January 2, 2020.

62 As per RMB/USD exchange rate prevailing on February 22, 2019 – the date of issuance.
63 As per the People's Bank of China and Ministry of Finance Announcement [2018] No.16 issued on September 25, 2018.
64 As per RMB/USD exchange rate prevailing on February 22, 2019 – the date of issuance.
65 USD 1 billion is the sum of the first four instalments per member country according to the AoA.

Risk management

Risk governance

NDB adopts a conservative and integrated approach to risk management, which supports the strategic decision-making process of the institution. The Bank consistently conducts its activities within an "Enterprise Risk Management and Risk Appetite Framework" (the Framework) established by its BoD during 2019. This Framework consolidates and reveals the risk preference of NDB, fostering consistency, accountability and transparency of the Bank's business decisions, inculcating a strong risk culture across the institution.

In order to safeguard its capital base, NDB follows international standards to actively manage all inherent risks in its activities, including credit, market (exchange rate and interest rate risks), liquidity and operational risks. The risk governance structure of the Bank is based on the "Three Lines of Defence" model, which is specified in the Framework. The Framework provides a comprehensive summary of the Bank-wide risk management principles and risk appetite parameters guiding the operations of the Bank. The risk appetite parameters guide both strategic planning and day-to-day tactical decision making, thereby avoiding excessive risk taking and encouraging the development of effective controls to protect the key resources of the Bank.

While the Framework defines various risk categories, bank-level appetite and limits, respective risk policies define risk limits at a granular level. Roles, responsibilities and ownership for each category of risk have been clearly defined in the Framework and respective policies. A consolidated risk reporting mechanism providing portfolio view and individual category of risk view has been established. The risk report is submitted to the ARC Committee via the Finance Committee, Vice President and Chief Risk Officer.

Capital adequacy

The main objective of the capital management framework is to ensure that the Bank maintains capital sufficiency and flexibility against the inherent risks in daily business and can withstand unexpected potential losses given a certain risk preference. The Bank's management has established appropriate policies and procedures to manage the capital adequacy from a risk-based perspective.

Thus, the Bank monitors capital adequacy within a capital management framework. This seeks to ensure that the Bank's capital is aligned with the overall strategy of the Bank, as laid down by the BoG, budgets and financial risk associated with its business and that sufficient capital exists to cover the risks arising from the business.

Capital adequacy ratios

Ratio	Metric	As at Dec 31, 2019	As at Dec 31, 2018
Equity to assets	%	**80**	92
Limitations on operations	%	**23.8**	21
Capital utilisation ratio	%	**4.3**	4.8

Equity-to-asset ratio

The equity-to-asset ratio serves as a key capital metric for the Bank from an operational perspective. The absolute minimum level is set at 25%, however, the Bank sets 30% as the early warning indicator.

The equity-to-asset ratio as at December 31, 2019 is 80% (2018: 92%); well above the limit of 25%.

The decrease in the ratio relates to the increase in loan and other exposures, partially offset by the receipt in paid-in capital. As the Bank begins to reach a steady state, this ratio will stabilise above the limit.

Limitations on operations

The limitations on ordinary operations ratio is 23.8% for 2019, which is well within the Bank's limit level of 95% and has slightly fluctuated since 2018.

Capital utilisation ratio

The capital utilisation ratio (CUR) measures the required risk capital, based on Basel standardised (credit risk, market risk and operational risk) over capital (received paid-in capital, reserves and surplus). The CUR is 4.3% in 2019, lower than 4.8% observed in 2018, and well within the Bank's limit level of 85%. The decrease is due to the increase in paid-in capital.

Interest rate risk

The Bank strives to minimise its exposure to losses resulting from interest rate risk by matching the tenor and interest rates of its assets with those of the corresponding funding sources, and the Bank uses derivatives to offset interest rate mismatches.

Interest rate risk results from interest rate variations that affect all balance sheet items whose valuation is dependent on interest rates, whether they are fixed or variable.

The Bank applies a duration gap limit of 5 years as its primary measure to contain financial risk from interest rate exposure, and uses Value-at-Risk (VaR) calculations to monitor interest rate risk exposure. The duration gap as of end of 2019 was 0.35 year (2018: 0.54 year).

Exchange rate risk

NDB strives to minimise its exposure to losses resulting from exchange rate risk by matching the currency of its assets with the currency of the corresponding funding sources, and also uses derivatives to offset currency mismatches. The Bank measures the net open position of aggregated non-USD currencies against a limit of USD 20.0 million. As at the end of 2019, the net aggregate exposure, based on the Bank's internal risk monitoring model, was USD 7.3 million or 36.5% of the limit (2018: USD 0.2 million or 1% of the limit). The Bank uses VaR calculations to monitor exchange rate risk exposure.

In the forthcoming period, the Bank will continue to register bond programmes in off-shore and in its member countries' markets in order to raise funding in its member countries' local currency. This will meet the demand for local currency financing of NDB's member countries and assist the Bank in managing exchange rate risk by observing currency matching principles.

Liquidity risk

The Bank has a prudent approach to liquidity management and maintains an extremely strong liquidity position in very high-quality investments both in the short and long term.

Expected USD cash outflows relating to project loan disbursements in the period following the financial year 2019 were sufficiently covered by cash inflows from deposits.

The Bank is characterised by conservative compliance with its targeted liquidity ratios, reflecting the high level of short-term deposits. As at the end of the 2019 financial year, the weighted average maturity of 0.3 years is slightly shorter than the maturity at the end of the previous reporting period of 0.4 years.

Liquidity ratios

Ratio	Metric	As at Dec 31, 2019	As at Dec 31, 2018
Liquidity ratio (30-day)	%	**650**	4,719
Liquidity ratio (90-day)	%	**510**	774
Overall liquidity ratio	%	**163**	626

All liquidity ratios have been well above the Bank's target and limit levels. This is characteristic of the predominantly short-term nature of deposits and of the future disbursements that are expected to be moderate. The year-on-year decrease in the liquidity ratios signals a positive trend that is indicative of the Bank's increase in forecasted disbursements, which will also result in these ratios moderating in the future.

Further, the Bank's access to capital markets provides an additional protection in circumstances of extreme liquidity stress.

Credit risk

Sovereign and non-sovereign credit risk measurement

The credit quality of the Bank's loan portfolio remains investment grade. To measure sovereign credit risk, the Bank uses a combination of credit risk data from rating agencies and its own internal credit assessment, which is based on both financial and non-financial factors. During the course of 2019, Russia was upgraded by Moody's and Fitch each by one notch to Baa3 and BBB respectively. All other sovereign ratings were affirmed though the outlook for South Africa is negative among all rating agencies, as is Moody's outlook for India. As at December 31, 2019, the Weighted Average Risk Rating (WARR) of the sovereign loan portfolio has marginally come down to BBB+ as against A- at the end of the financial year 2018 and remains within the investment grade band. The WARR is among the highest as compared to the Bank's MDB peers.

Total approved sovereign projects by country

	As at Dec 31, 2019		As at Dec 31, 2018	
Member country	Approved sovereign projects USD m	WARR	Approved sovereign projects USD m	WARR
Brazil	**621**	**BB**	121	BB
Russia	**1,500**	**BBB**	1,069	BBB-
India	**3,783**	**BBB**	2,300	BBB
China	**4,218**	**A+**	2,758	A+
South Africa	**1,813**	**BBB-**	180	BBB-
Total approved sovereign projects	**11,935**	**BBB+**	6,428	A-

Total approved non-sovereign projects by country

	As at Dec 31, 2019		As at Dec 31, 2018	
Member country	Approved non-sovereign projects USD m	WARR	Approved non-sovereign projects USD m	WARR
Brazil	**900**[66]	**BB+**	500	BB
Russia	**1,216**	**BBB**	400	BBB
India	**300**	**BBB-**	–	–
South Africa	**582**	**BBB-**	500	BBB-
Total approved non-sovereign projects	**2,998**	**BBB-**	1,400	BBB-

66 Includes approved equity investment of up to USD 100 million in Patria Infrastructure Fund IV.

To measure non-sovereign credit risk, the Bank uses a combination of credit risk data from rating agencies and its own internal credit assessment, which is based on both financial and non-financial factors. As at December 31, 2019, the WARR of the non-sovereign project portfolio remained unchanged at BBB- as compared to the previous financial year.

Given the developing and emerging nature of these projects and the absence of a sovereign-backed guarantee, these ratings are expected to be lower than sovereign-guaranteed loans. For the 2019 financial year, the non-sovereign portfolio consists of approved loans to financial institutions (2019: USD 1.1 billion; 2018: USD 700.0 million), and private sector, including SOEs (2019: USD 1.9 billion; 2018: USD 700.0 million).

Risk analysis of total project portfolio

Total approved projects by country

	As at Dec 31, 2019		As at Dec 31, 2018	
Member country	Total approved projects USD m	WARR	Total approved projects USD m	WARR
Brazil	**1,521**	**BB**	621	BB
Russia	**2,716**	**BBB**	1,469	BBB-
India	**4,083**	**BBB**	2,300	BBB
China	**4,218**	**A+**	2,758	A+
South Africa	**2,395**	**BBB-**	680	BBB-
Total approved loans	**14,933**	**BBB+**	7,828	BBB+

The WARR of the total project portfolio for the 2019 financial year remains within investment grade at BBB+; unchanged from the previous year's rating. As at the end of the 2019 financial year, none of the loans nor any group of loans had been put onto a watch list.

Operational risk and internal control

Operational risk is the risk of loss arising from failure or inadequacy of systems and controls, human error, fraud or the impact of external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, and may lead to financial loss.

The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. This comprises governance structures, policies, processes and systems used to identify, measure, monitor, control and mitigate operational risk. NDB's approach includes self-assessments, loss data management and periodic monitoring and reporting of key risk indicators.

The Bank is currently following a basic indicator approach for the computation of operational risk capital charges.

The Internal Control Framework of the Bank includes the roles and responsibilities of various divisions within the three lines of defence, internal checks embedded in payments and decision-making processes, documentation of risks and controls. The Bank has established a mechanism for documentation of processes and controls in a structured manner. The Policies are reviewed and recommended by the ARC Committee and approved by the BoD.

NDB has established a Business Continuity Management and Disaster Recovery Framework, in line with its risk profile, criticality of activities and the cloud-based computing approach adopted by the Bank.[67]

Treasury business credit risk management

As at December 31, 2019, no breaches of treasury credit limits (concentration limits and counterparty limits) had been observed nor had there been any cancelled or amended transactions.

The credit quality of the Bank's treasury investment portfolio as at December 31, 2019 of USD 6.3 billion (2018: USD 4.8 billion) remained concentrated in the upper end of the credit spectrum since the counterparties for investments (i.e. deposits and bonds) are highly rated banks in Mainland China, Hong Kong and Singapore with ratings no lower than A-.

The WARR for the investment portfolio is A+. The weighted average remaining maturity is 4.1 months.

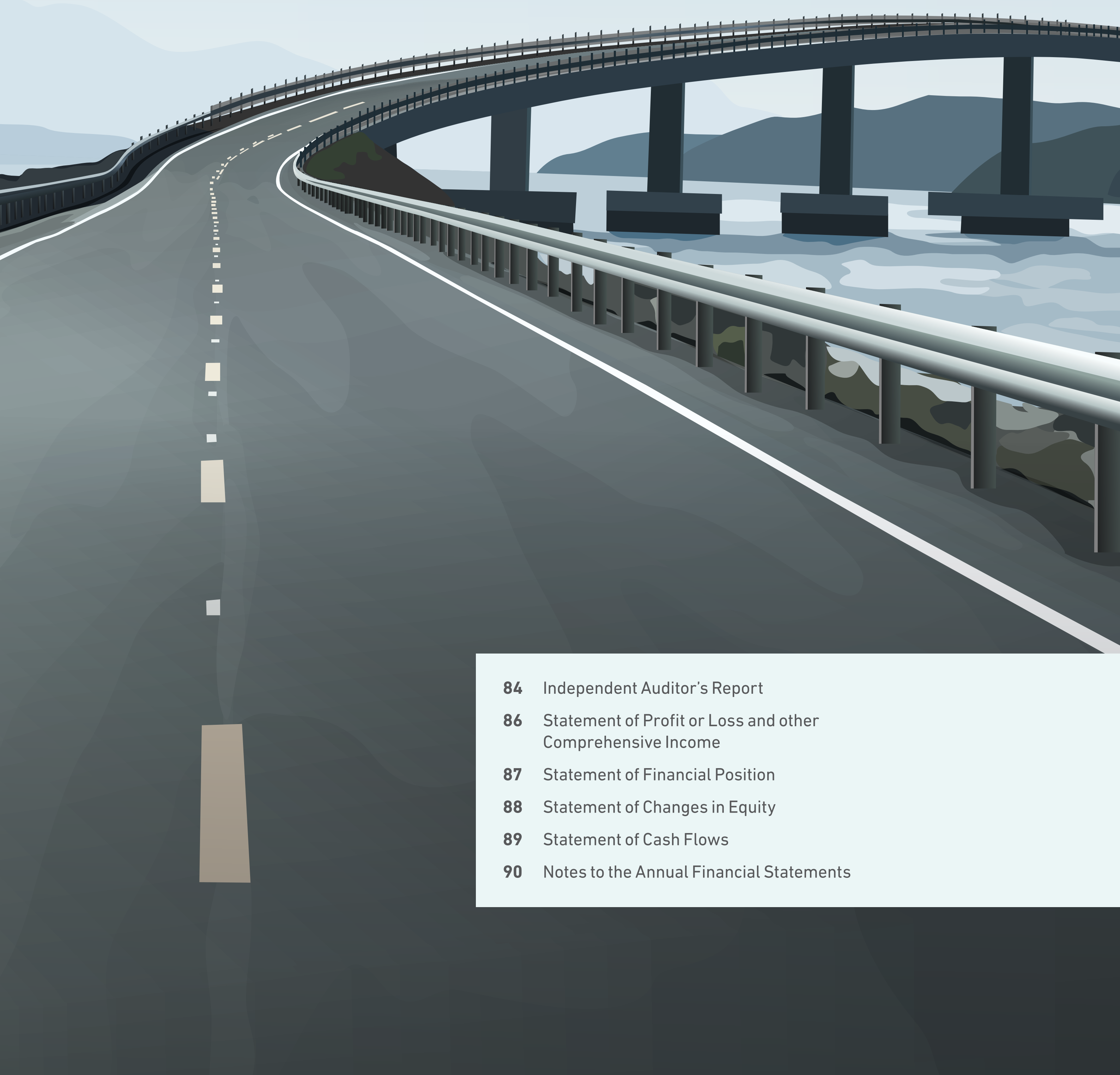
None of the counterparties exceeded the concentration threshold that aims to prevent excessive concentration of the Bank's investments with any individual counterparty. None of the counterparties exceeded the counterparty exposure threshold that aims to limit the investment exposure to any one counterparty relative to its balance sheet capacity.

As of December 31, 2019 all swap transactions are transacted with well rated counterparties (above A-).

67 Within the context of the global onset of COVID-19 in early 2020, NDB's cloud-first computing approach facilitated staff of the Bank to connect and work remotely from home. All business activities and transactions were uninterrupted, while ensuring the safety and security of the Bank's staff.

NDB Annual Financial Statements

For the year ended December 31, 2019



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NDB Annual Financial Statements

Responsibility for External Financial Reporting

Management's responsibility

NDB's Management is responsible for the preparation, integrity and fair presentation of the annual financial statements and all other information presented in the Annual Report 2019. The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and in accordance with the accounting policies of NDB.

The financial statements have been audited by independent external auditors. The Management believes that all representations made to the independent external auditors during their audit were valid and appropriate.

NDB's Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial presentations, in conformity with IFRSs. The ARC Committee assists the BoD in its responsibility to ensure the soundness of the Bank's accounting policies, guidelines, practices and effective implementation of internal controls. The external auditors and the internal auditors meet regularly with the ARC Committee, with and without other members of the Management team being present, to discuss the adequacy of internal controls over financial reporting and any other matters which they believe should be brought to the attention of the ARC Committee.

The external auditors have provided an audit opinion on the annual financial statements presented within this Annual Report set out on pages 84 and 85.

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 December 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in 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 financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the 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 obtained at the date of this auditor's report is 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.

Independent Auditor's Report – continued

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 on the other information obtained prior to the date of this auditor's report, 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.

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 of the Bank.

- 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.

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 CPA LLP

Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Shanghai, People's Republic of China
April 20, 2020

Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2019

Expressed in thousands of U.S. Dollars	Notes	Year ended December 31, 2019	Year ended December 31, 2018
Interest income	7	**230,555**	123,400
Interest expense	7	**(32,812)**	(13,597)
Net interest income	7	**197,743**	109,803
Net fee income	8	**1,567**	418
Net gains on financial instruments at fair value through profit or loss	9	**21,907**	7,809
		221,217	**118,030**
Staff costs	10	**(33,218)**	(25,310)
Other operating expenses	11	**(18,053)**	(11,936)
Impairment provision	5	**(2,073)**	(3,758)
Foreign exchange losses		**(17,396)**	(4,989)
Operating profit for the year		**150,477**	**72,037**
Unwinding of interest on paid-in capital receivables		**72,428**	93,822
Profit for the year		**222,905**	**165,859**
Total comprehensive income for the year		**222,905**	**165,859**

Statement of Financial Position

As at December 31, 2019

Expressed in thousands of U.S. Dollars	Notes	As at December 31, 2019	As at December 31, 2018
Assets			
Cash and cash equivalents	12	**1,023,495**	122,988
Due from banks other than cash and cash equivalents	13	**5,494,752**	4,800,559
Derivative financial assets	14	**5,436**	710
Debt instruments measured at amortised cost	15	**33,771**	–
Loans and advances	16	**1,544,917**	628,104
Paid-in capital receivables	17	**3,713,543**	4,846,783
Right-of-use assets	18	**141**	–
Property and equipment	19	**1,455**	1,205
Intangible assets	20	**1,433**	931
Other assets	21	**1,607**	1,133
Total assets		**11,820,550**	**10,402,413**
Liabilities			
Derivative financial liabilities	14	**12,182**	6,374
Financial liabilities designated at fair value through profit or loss	22	**882,757**	443,809
Borrowings	23	**110,053**	–
Note payables	24	**623,256**	–
Lease liabilities	25	**138**	–
Contract liabilities	26	**14,513**	3,866
Other liabilities	27	**6,339**	3,501
Total liabilities		**1,649,238**	**457,550**
Equity			
Paid-in capital	28	**10,000,000**	10,000,000
Other reserves	29	**(86,457)**	(162,429)
Retained earnings		**257,769**	107,292
Total equity		**10,171,312**	**9,944,863**
Total equity and liabilities		**11,820,550**	**10,402,413**

The annual financial statements on pages 86 to 127 were approved and authorised for issue by the Board of Governors on April 20, 2020 and signed on their behalf by:

President **Chief Financial Officer**

Statement of Changes in Equity

For the year ended December 31, 2019

Expressed in thousands of U.S. Dollars	Paid-in capital	Other reserves	Retained earnings	Total
As at January 1, 2019	10,000,000	(162,429)	107,292	**9,944,863**
Operating profit for the year	–	–	150,477	**150,477**
Unwinding of interest on paid-in capital receivables for the year	–	–	72,428	**72,428**
Total comprehensive income for the year	–	–	222,905	**222,905**
Impact of early payment on paid-in capital receivables (Note 17)	–	3,544	–	**3,544**
Reclassification of unwinding of interest arising from paid-in capital receivables	–	72,428	(72,428)	**–**
As at December 31, 2019	**10,000,000**	**(86,457)**	**257,769**	**10,171,312**

Expressed in thousands of U.S. Dollars	Paid-in capital	Other reserves	Retained earnings	Total
As at January 1, 2018	10,000,000	(266,646)	35,255	**9,768,609**
Operating profit for the year	–	–	72,037	**72,037**
Unwinding of interest on paid-in capital receivables for the year	–	–	93,822	**93,822**
Total comprehensive income for the year	–	–	165,859	**165,859**
Impact of early payment on paid-in capital receivables (Note 17)	–	10,395	–	**10,395**
Reclassification of unwinding of interest arising from paid-in capital receivables	–	93,822	(93,822)	**–**
As at December 31, 2018	**10,000,000**	**(162,429)**	**107,292**	**9,944,863**

Statement of Cash Flows

For the year ended December 31, 2019

Expressed in thousands of U.S. Dollars	Year ended December 31, 2019	Year ended December 31, 2018
Operating activities		
Profit for the year	**222,905**	165,859
Adjustments for		
Interest expense	**32,812**	13,597
Interest income from debt instruments at amortised cost	**(757)**	–
Depreciation and amortisation	**589**	229
Unrealised gains on financial instruments	**(19,232)**	(2,912)
Unwinding of interest on paid-in capital receivables	**(72,428)**	(93,822)
Impairment provisions for loans and commitments	**2,073**	3,758
Exchange losses on debt instruments at amortised cost	**789**	–
Exchange losses on lease liabilities	**8**	–
Debt issuance cost	**552**	–
Operating cash flows before changes in operating assets and liabilities	**167,311**	**86,709**
Net increase in due from banks	**(694,193)**	(1,554,936)
Net increase in loans and advances	**(912,998)**	(604,228)
Net increase in other assets	**(487)**	(491)
Net increase in other liabilities and contract liabilities	**7,598**	919
Interest paid on bonds and borrowings	**(13,414)**	(13,910)
Interest paid on note payables	**(3,405)**	–
Interest paid on lease liabilities	**(4)**	–
Net cash from operating activities	**(1,449,592)**	**(2,085,937)**
Investing activities		
Proceeds from redemption of debt instruments at amortised cost	**40,810**	–
Purchase of debt instruments at amortised cost	**(74,613)**	–
Purchase of property and equipment and intangible assets	**(1,257)**	(1,717)
Net cash used in investing activities	**(35,060)**	**(1,717)**
Financing activities		
Paid-in capital received	**1,209,212**	1,190,788
Proceeds from issuance of short-term borrowings	**110,000**	13,000
Proceeds from issuance of bonds	**448,012**	–
Proceeds from issuance of note payables	**1,085,296**	–
Repayment of short-term borrowings	**–**	(13,000)
Repayment from note payables	**(466,595)**	–
Payment of bond issuance cost	**(552)**	–
Payment of issuance cost on note payables	**(131)**	–
Payment of lease liabilities	**(83)**	–
Net cash from financing activities	**2,385,159**	**1,190,788**
Net increase/(decrease) in cash and cash equivalents	**900,507**	**(896,866)**
Cash and cash equivalents at the beginning of the year	**122,988**	**1,019,854**
Cash and cash equivalents at the end of the year	**1,023,495**	**122,988**

Notes to the Annual Financial Statements

For the year ended December 31, 2019

1. General information

The New Development Bank (the "Bank") was established on the signing of the Agreement on the New Development Bank (the "Agreement") on July 15, 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 took effect on July 3, 2015 according to the notification endorsed by Brazil in its capacity as depositary. The headquarters of the Bank is located in Shanghai, China. On August 17, 2017, the Bank officially opened the Africa Regional Center ("ARC"), in Johannesburg, and will open other regional centres in BRICS countries.

According to the Agreement, the initial authorised capital of the Bank is United States Dollar ("USD") 100 billion and the initial subscribed capital of the Bank is USD 50 billion. Each founding member shall initially subscribe for 100,000 shares, totaling 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 stock of the Bank, shall be made in USD in 7 instalments, pursuant to the Agreement.

The purpose of the Bank is to mobilise resources for infrastructure and sustainable development projects within 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 December 31, 2019, the Bank had 149 (December 31, 2018: 128) employees including the President and 4 (December 31, 2018: 4) Vice-Presidents. In addition, there were 12 (December 31, 2018: 16) consultants/secondees appointed by the Bank on a short-term basis.

2. Application of international financial reporting standards

For the purpose of preparing and presenting the annual 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 "IFRSs") issued by the International Accounting Standards Board ("IASB") which are effective for the accounting year.

The Bank has applied the following new and amendments to IFRSs which are relevant to the Bank for the first time in the current year:

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation

The application of the above new and amendments to IFRSs in the current year has had no material impact on the Bank's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements except for the following:

IFRS 16 Leases

The Bank has adopted IFRS 16 for the first time in the current year. IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

2. Application of international financial reporting standards – continued

IFRS 16 Leases – continued

Definition of a lease

The Bank has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Bank has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Bank applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Bank has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, January 1, 2019. As permitted by the transitional provisions of IFRS 16, the Bank elects not to restate comparative figures.

As at 1 January 2019, the Bank recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition.

When applying the modified retrospective approach under IFRS 16 at transition, the Bank applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

On transition, the Bank has made the following adjustments upon application of IFRS 16:

The Bank recognised right-of-use assets amounting to USD 226 thousand and lease liabilities amounting to USD 213 thousand as at January 1, 2019. The right-of-use assets are amortised over the lease term.

When recognising the lease liabilities for leases previously classified as operating leases, the Bank has applied incremental borrowing rate of the Bank at the date of initial application. The Bank's incremental borrowing rate applied to lease liabilities is 2.4696%.

The operating lease commitments as at December 31, 2018 are reconciled to the recognised lease liabilities as at January 1, 2019 as below:

As at January 1, 2019	USD'000
Operating lease commitment as at December 31, 2018	252
Less:	
Recognition exemption – short-term leases	(23)
Lease liabilities discounted at relevant incremental borrowing rates	(16)
Lease liabilities as at January 1, 2019	**213**

The carrying amount of right-of-use assets for own use as at January 1, 2019 comprises the following:

As at January 1, 2019	USD'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	213
Reclassified from prepaid rental payments	13
Total	**226**

Notes to the Annual Financial Statements

For the year ended December 31, 2019

2. Application of international financial reporting standards – continued

IFRS 16 Leases – continued

As a lessee – continued

The following adjustments were made to the amounts recognised in the statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at December 31, 2018 USD'000	Adjustments USD'000	Carrying amounts at January 1, 2019 USD'000
Assets			
Right-of-use assets	–	226	226
Other assets	1,133	(13)	1,120
Total assets	**1,133**	**213**	**1,346**
Liabilities			
Lease liabilities	–	213	213
Total liabilities	–	**213**	**213**

The Bank has not early adopted the following new and amendments to IFRSs that have been issued but not yet become effective:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]

1 Effective for annual periods beginning on or after January 1, 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after January 1, 2020.
5 Effective for annual periods beginning on or after January 1, 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to IFRSs mentioned below, the Bank anticipates that the application of all other new and amendments to IFRSs will have no material impact on the financial statements in the foreseeable future.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Bank's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Bank but may affect the presentation and disclosures in the financial statements.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation

Basis of preparation

The annual financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, and in accordance with the accounting policies set out below which are in conformity with IFRSs. These policies have been consistently applied throughout the year.

Historical cost is generally based on the fair value of the consideration given in exchange of 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 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 accounted for in accordance with IFRS 16 (since January 1, 2019) or IAS 17 (before application of IFRS 16), 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.

More details about fair value hierarchy are provided in Note 6.

The preparation of the annual financial statements, in conformity with IFRSs, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the annual financial statements and the reported amounts of revenues and expenses during the reporting years. It also requires management to exercise its judgement in the process of applying the Bank's policies. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements, are disclosed in Note 4.

The principal accounting policies adopted are set out below and have been applied consistently to each year presented.

Revenue

The Bank 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
- the Bank's performance creates or enhances an asset that the customer controls as the Bank performs; or
- the Bank's performance does not create an asset with an alternative use to the Bank and the Bank has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Bank's obligation to transfer goods or services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation.

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation – continued

Revenue – continued

Interest income

Interest income is recognised in profit or loss for interest-bearing financial instruments using the effective interest rate method, on the accrual basis for financial assets classified at amortised cost and at fair value through other comprehensive income. In this regard, the effective interest is applied to gross carrying amount of a financial asset, except for:

a) purchased or originated credit impaired financial assets for which the credit adjusted effective interest rate is applied to the amortised cost of financial assets from initial recognition and
b) credit impaired financial assets that have been recognised subsequent to initial recognition, for which the original effective interest rate is applied to the net carrying value in the subsequent reporting periods

With respect to (b) above, in subsequent reporting periods, interest income is calculated by applying the effective interest rate to the gross carrying amount if the credit risk of the financial assets improves so that it is no longer credit impaired.

The effective interest rate 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 over 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.

Front-end fee

Front-end fees relating to the origination or acquisition of a financial asset are recognised as deferred income at the date of the first drawdown when they satisfy the performance obligation, and subsequently amortised over the period of the contract.

Commitment fee

Commitment fees relating to the undrawn loan commitment are recognised in terms of the loan contracts over the commitment period.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Property and equipment

Property and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. The assets purchased are initially measured at acquisition cost. The cost at initial recognition include but is not limited to the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be ready for its intended use.

Items of property and equipment are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure incurred on property and equipment is 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 expenditure can be measured reliably. Costs relating to repairs and maintenance are recognised in profit or loss, in the period in which they 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 estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation – continued

Property and equipment – continued

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	20%	4-7 years
Others	0%	5 years

Intangible assets

Intangible assets acquired separately and with finite useful lives are subsequently measured at costs less accumulated amortisation and 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 is 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 as 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 this class of intangible assets are as follows:

IT software	3 - 5 years

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Bank assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option.

The Bank also applies the recognition exemption for lease of low-value assets. Leases of which the underlying lease asset is valued lower than USD 5,000 are considered as low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation – continued

Leases – continued

As a lessee – continued

Right-of-use assets

The cost of right-of-use asset includes:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Bank; and
- an estimate of costs to be incurred by the Bank in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for short-term leases and leases of low value assets, the Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Bank presents right-of-use assets as a separate line item on the statement of financial position.

Lease liabilities

At the commencement date of a lease, the Bank recognises and measures the lease liability at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:
- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Bank exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Bank presents lease liabilities as a separate line item on the statement of financial position.

Lease modifications

The Bank accounts for a lease modification as a separate lease if:
- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Bank remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation – continued

Impairment on property and equipment, right-of-use assets and intangible assets other than financial assets

At the end of the reporting period, the Bank reviews the carrying amounts of its property and equipment, right-of-use assets, intangible assets with finite useful lives 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 of property and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax 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 (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated *pro rata* to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Initial recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank's financial instruments mainly consist of cash and cash equivalents, deposits due from banks, loans and advances, paid-in capital receivables, debt instruments measured at amortised cost, other receivables, note payables, other payables measured at amortised cost, derivative financial assets/liabilities and bonds designated at fair value through profit or loss ("FVTPL").

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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables from IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Notes to the Annual Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Classification of financial instruments

Financial assets

The Bank classifies its financial assets under IFRS 9, into the following measurement categories:
- Financial assets at FVTPL;
- Financial assets measured at amortised cost; and
- Financial assets measured at Fair Value Through Other Comprehensive Income ("FVTOCI");

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

Financial assets at FVTPL

A financial asset shall be measured at FVTPL unless it is measured at amortised cost or at FVTOCI. Upon initial recognition, financial instruments may be designated at FVTPL. A financial asset may only be designated at FVTPL if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Financial assets measured at amortised cost

The Bank classifies an asset at amortised cost when the following conditions have been met:
- The financial asset is held within a business model whose objective is to hold the financial asset to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Bank applies the effective interest method to the amortised costs of a financial asset. Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI.

Financial assets measured at FVTOCI

The Bank classifies debt instruments at FVTOCI if they are held within a business model whose objective is achieved by both selling and collecting contractual cash flows and the contractual terms of financial asset give rise on specified dates to cash flows that are SPPI.

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits. Dividends from these investments in equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Classification of financial instruments – continued

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over its own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

The Bank classifies its financial liabilities under IFRS 9 into the following categories:
- Financial liabilities at FVTPL; and
- Financial liabilities measured at amortised cost.

A financial liability is held for trading if:
- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designed and effective as a hedging instrument or a financial guarantee contract.

A financial liability may be designated at FVTPL if:
- It eliminates or significantly reduces an accounting mismatch that would otherwise arise; or
- It forms part of a contract containing one or more embedded derivatives which meet certain conditions; or
- It forms part of a group of financial liabilities, which is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank's key management personnel.

Where liabilities are designated at FVTPL, they are initially recognised at fair value, with transaction costs recognised in profit and loss 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 applies the fair value measurement option to the bonds issued in 2016 and 2019 respectively to reduce the accounting mismatch resulting from the economically related interest rate swap and cross currency swap with the same notional amount in total.

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. For details on effective interest rate, refer to the interest income section above.

Derivative financial instruments

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and currency risk, including interest rate swaps, cross currency swaps and forwards. Further details of derivative financial instruments are disclosed in Note 14.

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently re-measured 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.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Impairment

IFRS 9 requires recognition of expected credit losses ("ECL") on the financial assets accounted for at amortised cost, FVTOCI and certain unrecognised financial instruments such as loan commitments. ECL of a financial instrument 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.

The Bank applies a three-stage approach to measuring ECL on financial assets accounted for at amortised cost and loan commitments. Financial 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

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. For financial assets that are credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of impairment allowance) rather than the gross carrying amount. The Bank identifies financial assets as being credit-impaired when one or more events that could have a detrimental impact on future cash flows of the financial asset have occurred.

More details about credit risk analysis are provided in Note 5.

The disclosure regarding significant increases in credit risk, definition of default and credit-impaired financial assets are detailed in Note 5.

Write-off policy

The Bank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 1 year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive, discounted at the effective interest rate determined at initial recognition.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the loan commitments draws down the loan, and the cash flows that the Bank expects to receive if the loan is drawn down.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Derecognition of financial instruments

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire. The Bank derecognises financial liabilities when the Bank's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial instruments derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Bank has a legal right to offset the amounts and intends to settle on a net basis or to realise the assets and settle the liability simultaneously.

Employee benefits

In the accounting period in which employees provide services, the Bank recognises the salary and welfare costs incurred and estimated employee benefits, as a liability at the undiscounted amount of the benefits expected to be paid, with a corresponding charge to the profit or loss for the current period.

The amounts payable arising on the Bank's defined contribution scheme are recognised in the financial statements in the period in which the related service is provided. The Bank has no legal or constructive obligation to pay further contributions in the event that these plans do not hold sufficient assets to pay any employee the benefits relating to services rendered in any current and prior period.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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 paid-in 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 at the fair value of the amount of receivable.

Taxation

The Bank enjoys tax exemption within the territory of mainland China according to Article 9 of the Headquarters 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, the People's Republic of 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 entered into force on July 3, 2015.

Cash and cash equivalents

Cash comprises of 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.

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, which is USD. In preparing the annual financial statements of the Bank, transactions in currencies other than the Bank's functional currency (USD) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated after initial recognition.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are recognised in profit or loss in the period in which they arise.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

4. Critical accounting estimates and judgements applied by management

In the application of the Bank's accounting policies, which are described in Note 3, 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 bonds designated at FVTPL

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 reputable financial data vendors like Bloomberg and are used for arriving at the forward rates and discount rates. The financial liabilities are measured at FVTPL. 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 in Note 6.

Discounting of paid-in capital receivables

The discounted cash flow model is used by the Bank to calculate the present value of paid-in capital receivables at initial recognition. In determining the discount rate of paid-in capital receivables, 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. It was concluded by management of the Bank that USD Libor yield curve is the most appropriate discount rate that reflects the time value and the credit risk of the receivables in question.

Measurement of the ECL allowance

The measurement of the ECL allowance for the Bank's financial assets measured at amortised cost and loan commitments requires the use of a model and certain assumptions.

The following significant judgements are required in applying the accounting requirements for measuring the ECL:
- Determining criteria for significant increase in credit risk;
- Choosing an appropriate model and determining appropriate assumptions for the measurement of ECL; and
- Establishing the number and probability of forward-looking scenarios for each type of product.

Additional disclosure on the ECL allowance is set out in Note 5.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

5. Financial risk management

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 risk management policies, approved by the Board of Directors 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 primary responsibility for risk management at an operational level rests with the management of the Bank. Management and various specialist committees are tasked with integrating the management of risk into the day-to-day activities of the Bank, by monitoring related risk parameters and tolerance through policies and procedures under the strategy approved by designated committees.

The Bank is exposed to a variety of financial risks namely: credit risk, liquidity risk and market risk which comprises exchange rate risk and interest rate risk.

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; and
(iii) obligors credit risk in its treasury business.

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

The Bank mainly relies on external credit rating results from major international rating agencies (e.g. Moody's, Standard and Poor's and Fitch) to provide an initial assessment of the credit quality of sovereign and non-sovereign borrowers and treasury counterparties. In case 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 continuously monitors the overall credit risk of the Bank.

For loans without a sovereign guarantee, in addition to the external credit ratings, the Bank will in due course use an internal credit assessment taking into account specific project, borrower, sector and country credit risks. The Risk Division obtains and uses the latest rating result of the obligors to measure credit risk profile of the Bank.

A summary of rating grade that is being used by the Bank is as below:
- 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+ to BB but not including defaulted or impaired.

ECL measurement

The Bank applies a three-stage model for impairment based on changes in credit quality since initial recognition. The ECL calculation tool designed by Moody's is used for the years ended December 2019 and 2018.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

5. Financial risk management – continued

Credit risk – continued

Significant increases in credit risk

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following qualitative and quantitative criteria have been met. The Bank has applied the new quantitative criteria for the year ended December 31, 2019 after revisiting the way significant increase in credit risk is assessed for the Bank's portfolio. The qualitative criteria are not changed.

Quantitative criteria include:

- Delay in interest or principal payment exceeds 30 days; or
- Rating downgrade by 3 notches compared to the rating at initial recognition.

Qualitative criteria include:

- History of arrears within 12 months;
- Cross default is activated;
- Material regulatory action against the borrower; and/or
- Failure to comply with covenants or loan condition renegotiation.

Credit-impaired financial assets

ECL is calculated on a 12-month or lifetime basis. For financial assets that are credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost rather than the gross carrying amount. A financial asset is credit-impaired when one or more events that have a material detrimental impact on the estimated future cash flows of that financial asset have occurred.

The impairment allowance is calculated on a 12-month basis for assets without a significant increase in credit risk since their initial recognition or on a lifetime basis for assets with a significant increase in credit risk. For financial assets that are credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost, rather than the gross carrying amount.

12-month ECL measurement

Estimation of 12-month ECL is calculated using the following formula for a given scenario

$$12m\ ECL=\sum_{t=1}^{12m} PD_t \times LGD_t \times EAD_t \times DF_t$$

- Unconditional Point-in-time Probability of Default ("PIT-PD") is derived based on the latest Standard and Poor's observed default rate for sovereign exposures, or Moody's model considering specific rating, country and industry information for non-sovereign exposures, which is then conditioned on three future macro-economic scenarios (baseline, optimistic and pessimistic);
- Loss Given Default ("LGD") for the current financial year is set at 30% for sovereign loans and at 75% for non-sovereign loans;
- Exposure at Default ("EAD") includes the sum of loans disbursed, interest receivable and net projected disbursement schedule over the next 12 months; and
- Discount rate is equal to the effective interest rate.

Lifetime ECL measurement

Estimation of lifetime ECL is calculated using the following formula for a given scenario

$$Lifetime\ ECL=\sum_{t=1}^{Lifetime} PD_t \times LGD_t \times EAD_t \times DF_t$$

- The process to determine the PIT-PD term structure is the same as 12-month ECL calculation for the first 5 years and PIT-PD is assumed to revert back to the long-run PD for the remaining years;
- LGD is the same as the calculation used for the 12-month ECL measurement purposes;
- EAD for any given year is based on the sum of loan disbursed, interest receivable and net projected disbursement schedule over the remaining loan contract period;
- Discount rate is equal to the effective interest rate; and
- Lifetime of the loan is the remaining loan contract period.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

5. Financial risk management – continued

Credit risk – continued

Lifetime ECL measurement – continued

Forward-looking information incorporated in ECL

Macro scenario development

(i) 3 macro scenarios: baseline, optimistic and pessimistic. Each scenario is forecasted for 5 years.
(ii) Based on each member country's development and conditions, a range of forward-looking macro-economic information is considered.
(iii) Choice of macro scenarios and probability weightings of each scenario is approved by the Management.

$$\text{Weighted Average ECL} = \sum_{\text{Scenarios}} \text{Weight}_{\text{Scenario}} \times \text{ECL}_{\text{Scenario}}$$

The baseline, optimistic and pessimistic scenarios were given weightings of 50%, 25% and 25% respectively. The estimation is based on the best representative management judgment without undue cost or effort that, going forward the current path of macro-economic projections with an equal chance of being worse (pessimistic scenario) or better (optimistic scenario)

Sensitivity analysis

The weights of the scenarios used, is another source of sensitivity. Should the Bank have changed the weightings to 45%, 25% and 30% respectively for baseline, optimistic and pessimistic scenarios, the amount of ECL would have been USD 6.1 million (December 31, 2018: USD 4.0 million) or increased by USD 0.3 million (December 31, 2018: USD 0.2 million).

Definition of default

For the ECL measurement, default occurs when a borrower meets one or more of the following conditions:

- Failure to make a payment within 90 days.
- Breach of specific covenants that trigger a default clause.
- Failure to pay a final judgement or court order.
- Bankruptcy, liquidation or the appointment of a receiver or any similar official.
- Significant financial difficulty of the issuer or the borrower.

The table below represents an analysis of the credit quality of loan facilities that are neither past due nor impaired, based on the external rating of the counterparties:

Credit exposure on loan facilities

As at December 31, 2019	Maximum facility USD'000	Effective facility USD'000	Utilised USD'000	Unutilised loan commitments USD'000
Senior investment grade	3,569,923	3,282,633	328,812	2,953,821
Investment grade	5,246,316	4,626,316	861,641	3,764,675
Sub-investment grade	550,000	550,000	347,723	202,277
Total	**9,366,239**	**8,458,949**	**1,538,176**	**6,920,773**
Interest Receivable			11,276	–
Less: Provision for loan and commitment			(4,535)	(1,319)
Carrying amount as at December 31, 2019			**1,544,917**	**6,919,454**

The PD associated with loan facilities for the next twelve months is between 0% to 2% at the dates of signing of loans agreements and as at December 31, 2019. There has been no significant increase in credit risk up to December 31, 2019 and all the loans are at stage 1.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

5. Financial risk management – continued

Credit risk – continued

Credit exposure on loan facilities – continued

As at December 31, 2018	Maximum facility USD'000	Effective facility USD'000	Utilised USD'000	Unutilised loan commitments USD'000
Senior investment grade	1,507,559	1,507,559	120,053	1,387,506
Investment grade	2,550,000	960,000	164,515	795,485
Sub-investment grade	500,000	500,000	340,000	160,000
Total	**4,557,559**	**2,967,559**	**624,568**	**2,342,991**
Interest Receivable			6,191	–
Less: Provision for loan and commitment			(2,655)	(1,126)
Carrying amount as at December 31, 2018			**628,104**	**2,341,865**

The PD associated with the above loan facilities for the next 12 months is between 0% to 1% at the dates of signing of loan agreements and as at December 31, 2018. There was no significant increase in credit risk up to December 31, 2018 and all the loans were at stage 1.

Reconciliation of provision for loans raised

	Stage 1 USD'000
ECL allowance of loans as at January 1, 2019	2,655
Additions	1,127
Derecognition	(29)
Change in risk parameters	782
ECL allowance of loans as at December 31, 2019	**4,535**

	Stage 1 USD'000
ECL allowance of loans as at January 1, 2018	–
Additions	2,655
Change in risk parameters	–
ECL allowance of loans as at December 31, 2018	**2,655**

Reconciliation of provision for loan commitments

	Stage 1 USD'000
ECL allowance of loan commitments as at January 1, 2019	1,126
Additions	1,254
Reversal	(1,066)
Change in risk parameters	5
ECL allowance of loan commitments as at December 31, 2019	**1,319**

	Stage 1 USD'000
ECL allowance of loan commitments as at January 1, 2018	–
Additions	1,126
Change in risk parameters	–
ECL allowance of loan commitments as at December 31, 2018	**1,126**

Notes to the Annual Financial Statements

For the year ended December 31, 2019

5. Financial risk management – continued

Credit risk – continued

Concentration risk

The following table breaks down the credit risk exposures relating to loans and commitments, in their carrying amounts, by country.

As at December 31, 2019	Effective facility USD'000	Utilised USD'000	Unutilised loan commitments USD'000
China	3,232,633	291,187	2,941,446
Brazil	550,000	347,723	202,277
India	1,980,000	394,798	1,585,202
Russia	2,216,316	374,227	1,842,089
South Africa	480,000	130,241	349,759
Total	**8,458,949**	**1,538,176**	**6,920,773**
Interest Receivable		11,276	–
Less: Provision for loans and commitments		(4,535)	(1,319)
Carrying amount as at December 31, 2019		**1,544,917**	**6,919,454**

As at December 31, 2018	Effective facility USD'000	Utilised USD'000	Unutilised loan commitments USD'000
China	1,457,559	94,928	1,362,631
Brazil	500,000	340,000	160,000
India	450,000	139,390	310,610
Russia	560,000	50,250	509,750
Total	**2,967,559**	**624,568**	**2,342,991**
Interest Receivable		6,191	–
Less: Provision for loans and commitments		(2,655)	(1,126)
Carrying amount as at December 31, 2018		**628,104**	**2,341,865**

Credit exposure on deposits

The Bank had deposits with commercial banks that are subject to credit risk. These deposits are placed with highly rated banks in mainland China, Hong Kong and Singapore. The credit rating of banks are analysed as below:

	As at Dec 31, 2019 USD'000	As at Dec 31, 2018 USD'000
Cash equivalents		
Senior investment grade	1,023,484	122,976
Due from banks other than cash and cash equivalents		
Senior investment grade	5,494,752	4,800,559
Total	**6,518,236**	**4,923,535**

Notes to the Annual Financial Statements

For the year ended December 31, 2019

5. Financial risk management – continued

Credit risk – continued

Credit exposure on deposits – continued

Credit exposure on the investment in debt instruments

	As at Dec 31, 2019 USD'000	As at Dec 31, 2018 USD'000
Senior investment grade	33,771	–
Total	**33,771**	**–**

There has been no significant increase in credit risk since initial recognition associated with the amounts due from banks, debt instruments measured at amortised cost and loans and commitments up to December 31, 2019. The credit exposure on cash and cash equivalents exclude cash on hand.

Credit risk on paid-in capital receivables

The paid-in capital receivable relates to capital contributions instalments committed by the Founding Members. No member has defaulted on payments therefore, in the opinion of the management of the Bank is unlikely to incur any related credit risk associated with the capital receivables.

Credit risk on derivatives

The Bank has entered into derivative contracts for the purpose of achieving an economic hedge of currency and interest rate risk associated with the bond issued, time deposits and investment measured at amortised cost. The Bank chose counterparties with high credit rating in mainland China and Hong Kong and entered agreements with them. Under the ISDA master agreement, if a default by 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 risk through the limits on the basis of the individual counterparties and geographical region in accordance with the Board approved policy. The Bank will diversify its credit exposures over time.

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 managing and controlling liquidity risk. The Bank maintains an appropriate mix of liquid assets 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 or note payables 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.

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 the figures therefore include both principal and associated future interest payments.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

5. Financial risk management – continued

Liquidity risk – continued

As at December 31, 2019	On demand USD'000	Less than 1 month USD'000	1-3 months USD'000	3-12 months USD'000	1-5 years USD'000	Over 5 years USD'000	Total USD'000
Non-derivatives							
Cash and cash equivalents	226,188	741,885	55,923	–	–	–	1,023,996
Due from banks	–	1,331,133	1,496,862	2,475,838	253,631	–	5,557,464
Loans and advances	–	–	21,183	44,984	539,326	1,391,278	1,996,771
Paid-in capital receivables	–	300,000	–	–	3,500,000	–	3,800,000
Debt instruments measured at amortised cost	–	–	553	7,705	26,897	–	35,155
Other financial assets	865	–	–	–	–	–	865
Financial liabilities designated at FVTPL	–	–	(13,388)	(13,164)	(904,273)	–	(930,825)
Short-term borrowings	–	(110,083)	–	–	–	–	(110,083)
Note payables	–	(97,000)	(280,000)	(250,000)	–	–	(627,000)
Lease liabilities	–	–	(22)	(71)	(49)	–	(142)
Other financial liabilities	(3,508)	–	–	–	–	–	(3,508)
Sub-total	**223,545**	**2,165,935**	**1,281,111**	**2,265,292**	**3,415,532**	**1,391,278**	**10,742,693**
Derivatives							
Net setting derivatives							
Interest rate swap – cash inflow	–	–	10,248	2,033	29,505	–	41,786
Interest rate swap – cash outflow	–	(553)	(4,814)	(10,371)	(18,153)	–	(33,891)
Gross setting derivatives							
Cross currency swap – cash inflow	–	–	–	10,508	350,001	–	360,509
Cross currency swap – cash outflow	–	(3,625)	–	(3,031)	(364,628)	–	(371,284)
Foreign exchange forward – cash inflow	–	–	–	256,366	14,515	–	270,881
Foreign exchange forward – cash outflow	–	–	–	(257,758)	(14,675)	–	(272,433)
Sub-total	**–**	**(4,178)**	**5,434**	**(2,253)**	**(3,435)**	–	**(4,432)**
Net	**223,545**	**2,161,757**	**1,286,545**	**2,263,039**	**3,412,097**	**1,391,278**	**10,738,261**

Notes to the Annual Financial Statements

For the year ended December 31, 2019

5. Financial risk management – continued

Liquidity risk – continued

As at December 31, 2018	On demand USD'000	Less than 1 month USD'000	1-3 months USD'000	3-12 months USD'000	1-5 years USD'000	Over 5 years USD'000	Total USD'000
Non-derivatives							
Cash and cash equivalents	97,313	25,887	–	–	–	–	123,200
Due from banks	–	976,111	787,657	2,806,774	316,137	–	4,886,679
Loans and advances	–	–	11,620	13,932	264,008	537,255	826,815
Paid-in capital receivables	–	300,000	9,212	–	4,700,000	–	5,009,212
Other financial assets	271	–	–	–	–	–	271
Financial liabilities designated at FVTPL	–	–	–	(13,375)	(459,738)	–	(473,113)
Other financial liabilities	(1,275)	–	–	–	–	–	(1,275)
Sub-total	**96,309**	**1,301,998**	**808,489**	**2,807,331**	**4,820,407**	**537,255**	**10,371,789**
Derivatives							
Net setting derivatives							
Interest rate swap – cash inflow	–	–	–	2,001	4,007	–	6,008
Interest rate swap – cash outflow	–	(598)	–	(1,433)	(3,172)	–	(5,203)
Gross setting derivatives							
Cross currency swap – cash inflow	–	–	–	10,674	368,399	–	379,073
Cross currency swap – cash outflow	–	(4,163)	–	(4,794)	(376,880)	–	(385,837)
Sub-total	**–**	**(4,761)**	–	**6,448**	**(7,646)**	–	**(5,959)**
Net	**96,309**	**1,297,237**	**808,489**	**2,813,779**	**4,812,761**	**537,255**	**10,365,830**

Market risk

Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change which result in profits and 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 makes 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 statement of financial position. 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.

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 mismatches protects the Bank's net interest margin from fluctuations in market interest rates. The Bank also undertakes derivative transactions to hedge interest rate risk.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

5. Financial risk management – continued

Interest rate risk – continued

The Bank measures its interest rate exposure by using the interest rate re-pricing profile which is 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.

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.

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 is 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	
Year ended December 31	2019 USD'000	2018 USD'000
+ 25 basis points	**10,580**	7,959
- 25 basis points	**(10,580)**	(7,959)

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. The Bank's main exposure to the exchange rate risk is Renminbi ("RMB") for the years ended December 31, 2019 and 2018.

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 impact of an appreciation or depreciation of USD against foreign currencies as at December 31, 2019 and December 31, 2018 assuming that all other variables remain constant.

	Impact on profit	
Year ended December 31	2019 USD'000	2018 USD'000
10% appreciation	**248**	(35)
10% depreciation	**(248)**	35

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For the year ended December 31, 2019

5. Financial risk management – continued

Capital management

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

The Bank sets early warning indicators for the pillars (95% for Limitation on Operations, 30% for Equity-to-Loan Ratio, 30% for Equity-to-Asset Ratio and 85% for Capital Utilisation Ratio) and monitors the capital adequacy level on an on-going basis. Once any of the early warning indicators are reached, contingency actions should be triggered to bring the capital adequacy level within the Bank's comfort levels.

As at December 31, 2019, 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 instalments.

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 as 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 financial liabilities designated at fair value through profit and loss and the derivatives as at December 31, 2019.

The Risk Division of the Bank is responsible for the fair value measurement. Analysis of fair value disclosures uses a hierarchy that reflects the significant inputs used in measuring the fair value. 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. The fair value hierarchy is as below.

- **Level 1:** Quoted prices (unadjusted) in active markets for the financial assets or the liabilities that the Bank can access at the measurement date.
- **Level 2:** 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.

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.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

6. Fair value of financial assets and liabilities – continued

Fair value of the Bank's financial instruments that are measured at fair value on a recurring basis

The Bank is of the opinion that there is no active market related to its 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 foreign exchange forwards, 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 reputable agencies like Bloomberg.

- The fair value of the financial liabilities designated at fair value through profit and loss is measured 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 table below shows the comparison of fair value of the financial assets, financial liabilities and derivatives.

As at December 31, 2019	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets	–	–	–	–
Derivatives	–	5,436	–	5,436
Total financial assets measured at fair value	**–**	**5,436**	**–**	**5,436**
Financial liabilities				
Derivatives	–	12,182	–	12,182
Financial liabilities designated at fair value	–	882,757	–	882,757
Total financial liabilities measured at fair value	**–**	**894,939**	**–**	**894,939**

As at December 31, 2018	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets	–	–	–	–
Derivatives	–	710	–	710
Total financial assets measured at fair value	**–**	**710**	**–**	**710**
Financial liabilities				
Derivatives	–	6,374	–	6,374
Financial liabilities designated at fair value	–	443,809	–	443,809
Total financial liabilities measured at fair value	**–**	**450,183**	**–**	**450,183**

There were no transfers between Level 1 and 2 during the years ended December 31, 2019 and 2018.

There were no third-party credit enhancements in the fair value measurement for financial liabilities designated at fair value as at December 31, 2019 and 2018.

The Bank considered that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the Bank's statements of financial position, approximate their fair values.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

7. Net interest income

	For the year ended December 31, 2019 USD'000	For the year ended December 31, 2018 USD'000
Interest income from banks	**194,079**	113,191
Interest income from loans and advances	**35,719**	10,209
Interest income from debt instruments measured at amortised cost	**757**	–
Total interest income	**230,555**	123,400
Interest expense on bonds issued	**(24,664)**	(13,590)
Interest expense on short-term borrowings	**(53)**	(7)
Interest expense on note payables	**(8,091)**	–
Interest expense on lease liabilities	**(4)**	–
Total interest expense	**(32,812)**	(13,597)
Net interest income	**197,743**	109,803

8. Net fee income

	For the year ended December 31, 2019 USD'000	For the year ended December 31, 2018 USD'000
Front-end fee recognised	**540**	155
Commitment fee	**1,027**	263
Total	**1,567**	418

9. Net gains on financial instruments at fair value through profit or loss

	For the year ended December 31, 2019 USD'000	For the year ended December 31, 2018 USD'000
Derivatives	**1,593**	2,564
Bonds	**20,314**	5,245
Total	**21,907**	7,809

The realised gains arising from derivatives financial instruments for the year ended December 31, 2019 were USD 2,675 thousand (Year ended December 31, 2018: USD 4,897 thousand).

Notes to the Annual Financial Statements

For the year ended December 31, 2019

10. Staff costs

	For the year ended December 31, 2019 USD'000	For the year ended December 31, 2018 USD'000
Salaries and allowances	**25,767**	19,400
Other benefits	**7,451**	5,910
Total	**33,218**	25,310

The Bank provides other benefits, based on their eligibility and applicability, to its staff members during their employment with the Bank. These include medical insurance, life insurance, accidental death and dismemberment insurance, Staff Retirement Plan ("SRP") and Post Retirement Plan ("PRP").

The charge recognised in the year ended December 31, 2019 for the SRP and PRP was USD 5.2 million (Year ended December 31, 2018: USD 4 million) and USD 523 thousand (Year ended December 31, 2018: USD 442 thousand) respectively and is included in "Other benefits". There are two retirement plans in operation. Both SRP and PRP are defined contribution schemes and are operated through trust funds. For SRP, both the Bank and staff contribute. For PRP, only the Bank contributes.

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 for the President of the Bank for the years ended December 31, 2019 and 2018. According to Article 11 of the Agreement, the Board of Governors shall determine the salary and terms of the service contract of the President of the Bank.

11. Other operating expenses

	For the year ended December 31, 2019 USD'000	For the year ended December 31, 2018 USD'000
Office expenses	**3,407**	2,737
Professional fees	**4,594**	3,448
Auditor's remuneration	**547**	513
Travel expenses	**4,168**	3,106
IT expenses	**3,961**	1,777
Hospitality expenses	**219**	116
Depreciation and amortisation	**589**	229
Bond issuance costs	**552**	–
Others	**16**	10
Total	**18,053**	11,936

Notes to the Annual Financial Statements

For the year ended December 31, 2019

12. Cash and cash equivalents

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Cash on hand	**11**	12
Demand deposit	**226,177**	97,301
Time deposit with original maturity within three months	**797,307**	25,675
Total	**1,023,495**	122,988

13. Due from banks other than cash and cash equivalents

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Commercial banks	**6,292,059**	4,826,234
Total	**6,292,059**	4,826,234
Less: Time deposit with original maturity within three months	**(797,307)**	(25,675)
Total	**5,494,752**	4,800,559

14. Derivative financial assets/liabilities

The Bank entered into derivative contracts for the green bond issued on July 18, 2016, that was paired with swaps of which the total notional amounts in RMB is 3 billion, to convert the issuance proceeds into the currency and interest rate structure sought by the Bank.

The Bank entered into derivative contracts for the new panda bond issued on February 22, 2019 that was paired with swaps of which the total notional amounts in RMB is 3 billion, to convert the issuance proceeds into the interest rate structure sought by the Bank. Similarly, the Bank also entered into derivative contracts for time deposits on February 27, 2019 with a notional amount of RMB 1.5 billion. The Bank has also entered into forward contracts for debt instruments measured at amortised cost and due from banks other than cash and cash equivalents.

Notwithstanding the purpose for achieving an economic hedge, the Bank opted not to apply hedge accounting to any derivative contracts entered into in the financial years ended December 31, 2019 and December 31, 2018.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

14. Derivative financial assets/liabilities – continued

As at December 31, 2019	Notional USD USD'000	Fair value assets USD'000	Fair value liabilities USD'000
Interest Rate Swap	732,590	5,436	177
Cross Currency Swap	359,396	–	10,480
Forward Contract	270,881	–	1,525
Total	**1,362,867**	**5,436**	**12,182**

As at December 31, 2018	Notional USD USD'000	Fair value assets USD'000	Fair value liabilities USD'000
Interest Rate Swap	90,132	710	–
Cross Currency Swap	359,396	–	6,374
Total	**449,528**	**710**	**6,374**

15. Debt instruments measured at amortised cost

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Policy bank bonds	**26,555**	–
Commercial bank bond	**7,216**	–
Total	**33,771**	–

The debt instruments measured at amortised cost relate to the Bank's investments in a commercial bank bond and two policy bank bonds denominated in RMB.

16. Loans and advances

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Principal	**1,538,176**	624,568
Interest receivable	**11,276**	6,191
Gross carrying amount	**1,549,452**	630,759
Less: ECL allowance	**(4,535)**	(2,655)
Net carrying amount	**1,544,917**	**628,104**

The new ECL allowance is recognised in relation to new loans with gross carrying amount of USD 925,093 thousand as at December 31, 2019.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

17. Paid-in capital receivables

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Balance at the beginning of year (Note 1 below)	**5,009,212**	6,200,000
Less:		
Instalments received during the year (Note 2 below)	**(1,209,212)**	(1,190,788)
Total nominal amounts of receivable at the end of the year (Note 4 below)	**3,800,000**	5,009,212
Less:		
Interest on paid-in capital receivables to be unwound in the future year (Note 3 below)	**(86,457)**	(162,429)
Balance at the end of the year	**3,713,543**	4,846,783

Note 1
As disclosed in Note 28, 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 instalments. The first instalment of paid-in capital shall be paid by each member within 6 months of the Agreement coming in force and the second instalment shall become due 18 months from the date the Agreement came into force. The remaining 5 instalments shall each become due successively one year from the date on which the preceding instalment becomes due.

Note 2
The instalment received in the year ended December 31, 2019 resulted from the receipt of the fourth instalment, and partial receipts of fifth instalments ahead of schedule.

Note 3
The discounting method is applied to derive the interest to be unwound over the instalment period. The balance includes an initial discount of USD 622,285 thousand less USD 516,714 thousand of accumulated unwinding interest already unwound on the paid-in capital receivables (December 31, 2018: USD 444,286 thousand) and USD 19,114 thousand of accumulated early payment impact on discounting which was credited to reserves as an equity transaction by the end of December 31, 2019 (December 31, 2018: USD 15,570 thousand).

Note 4
As at December 31, 2019, there was no overdue instalments of paid-in capital receivables. The total paid-in capital receivables that will become due within one-year amounted to an undiscounted value of USD 0.3 billion, and that will become due over one-year amount to an undiscounted value of USD 3.5 billion.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

18. Right-of-use assets

	As at December 31, 2019 USD'000
Property	
Cost as at January 1, 2019	226
Additions during the year	–
Currency revaluations	–
Cost at December 31, 2019	226
Accumulated depreciation as at January 1, 2019	–
Depreciation for the year	(85)
Accumulated depreciation as at December 31, 2019	(85)
Net book value as at December 31, 2019	**141**

19. 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 January 1, 2019	953	66	413	9	25	1,466
Additions during the year	540	–	–	–	–	540
Disposal for the year	(1)	–	–	–	–	(1)
Cost at December 31, 2019	**1,492**	**66**	**413**	**9**	**25**	**2,005**
Accumulated depreciation as at January 1, 2019	(95)	(24)	(131)	(1)	(10)	(261)
Depreciation for the year	(203)	(13)	(66)	(2)	(5)	(289)
Disposals/written-off	–	–	–	–	–	–
Accumulated depreciation as at December 31, 2019	(298)	(37)	(197)	(3)	(15)	(550)
Net book value as at December 31, 2019	**1,194**	**29**	**216**	**6**	**10**	**1,455**

	IT Equipment USD'000	Appliance USD'000	Vehicle USD'000	Furniture USD'000	Others USD'000	Total USD'000
Cost as at January 1, 2018	191	62	413	2	25	693
Additions during the year	762	4	–	7	–	773
Cost at December 31, 2018	**953**	**66**	**413**	**9**	**25**	**1,466**
Accumulated depreciation as at January 1, 2018	(18)	(11)	(65)	(0)	(5)	(99)
Depreciation for the year	(77)	(13)	(66)	(1)	(5)	(162)
Accumulated depreciation as at December 31, 2018	(95)	(24)	(131)	(1)	(10)	(261)
Net book value as at December 31, 2018	**858**	**42**	**282**	**8**	**15**	**1,205**

Notes to the Annual Financial Statements

For the year ended December 31, 2019

20. Intangible assets

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Cost as at the beginning of the year	**1,009**	65
Additions for the year	**717**	944
Cost as at the end of the year	**1,726**	1,009
Accumulated amortisation		
As at the beginning of the year	**(78)**	(11)
Amortisation for the year	**(215)**	(67)
As at the end of the year	**(293)**	(78)
Net book value as at the end of the year	**1,433**	931

21. Other assets

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Other receivables	**118**	220
Others	**1,489**	913
Total	**1,607**	1,133

22. Financial liabilities designated at fair value through profit or loss

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Bond – Principal	**896,023**	448,011
– Interest payable	**17,336**	6,086
– Fair value adjustment	**(30,602)**	(10,288)
Total	**882,757**	443,809

On July 18, 2016, the Bank issued a RMB 3 billion (USD 448,011 thousand equivalent) five-year green bond with the maturity date at July 19, 2021. The interest is paid by the Bank annually with fixed coupon rate of 3.07%.

On February 22, 2019, the Bank issued a RMB 3 billion (USD 448,012 thousand equivalent) new panda bond consisting of two tranches, RMB 2 billion for a three-year tenor with the maturity date at February 23, 2022 at an annual fixed coupon rate of 3.00% and RMB 1 billion for a five-year tenor with the maturity date at February 23, 2024 at an annual fixed coupon rate of 3.32%.

There has been no change in fair value of the bond attributable to changes in the Bank's credit risk for the years ended December 31, 2019 and 2018. The contractual principal amount to be paid at maturity of the green bond and the panda bond in original currency is respectively RMB 3 billion and RMB 3 billion for the Bank.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

23. Borrowings

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Unsecured short-term borrowings	**110,053**	–
Total	**110,053**	–

Short-term bank borrowings are repayable within one year.

As at December 31, 2019, the unsecured bank borrowing, amounting to USD 110 million and bearing the fixed rate of 1.935% per annum is repayable within one year.

24. Note payables

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Note payables	**623,256**	–
Total	**623,256**	–

Notes payables includes various zero-coupon note issuances with maturity within 1 year.

25. Lease liabilities

	As at December 31, 2019 USD'000
Lease liabilities	
Africa Regional Office rent	138
Total	**138**
Undiscounted lease payments	
Within 1 year	93
1 year to 2 years	49
Total	**142**

26. Contract liabilities

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Deferred income (Note 1 below)	**14,513**	3,866
Total	**14,513**	3,866

Note 1
The deferred income disclosed above relates to the unsatisfied performance obligations of front-end fees as at December 31, 2019 and 2018. Revenue recognised for the year ended December 31, 2019 that was included in the contract liability balance at the beginning of the period is USD 254 thousand. (Year ended December 31, 2018: USD 58 thousand).

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27. Other liabilities

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Employee benefits payable	**266**	308
Accrued expenses	**3,508**	1,275
Impairment provision of loan commitment	**1,319**	1,126
Annual Leave provision	**1,246**	792
Total	**6,339**	3,501

28. Paid-in capital

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member according to the Agreement, is set out in the following table. There is no amendment to the terms of subscription payment in the Agreement on December 31, 2019. The voting power of each member shall be equal to the number of its subscribed shares in the capital stock of the Bank according to the Agreement.

	As at December 31, 2019		As at December 31, 2018	
	Number of shares	Amount in USD'000	Number of shares	Amount in USD'000
Authorised shared capital	**1,000,000**	**100,000,000**	1,000,000	100,000,000
Less: unsubscribed by members	**(500,000)**	**(50,000,000)**	(500,000)	(50,000,000)
Total subscribed capital	**500,000**	**50,000,000**	500,000	50,000,000
Less: callable capital	**(400,000)**	**(40,000,000)**	(400,000)	(40,000,000)
Total paid in capital	**100,000**	**10,000,000**	100,000	10,000,000

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 December 31, 2019	Total shares Numbers	Total capital USD'000	Callable capital USD'000	Paid-in capital USD'000	Paid-in capital[1] received USD'000	Paid-in capital outstanding USD'000
Brazil	100,000	10,000,000	8,000,000	2,000,000	1,300,000	700,000
Russia	100,000	10,000,000	8,000,000	2,000,000	1,300,000	700,000
India	100,000	10,000,000	8,000,000	2,000,000	1,000,000	1,000,000
China	100,000	10,000,000	8,000,000	2,000,000	1,300,000	700,000
South Africa	100,000	10,000,000	8,000,000	2,000,000	1,300,000	700,000
Total	**500,000**	**50,000,000**	**40,000,000**	**10,000,000**	**6,200,000**	**3,800,000**

As at December 31, 2018	Total shares Numbers	Total capital USD'000	Callable capital USD'000	Paid-in capital USD'000	Paid-in capital[1] received USD'000	Paid-in capital outstanding USD'000
Brazil	100,000	10,000,000	8,000,000	2,000,000	1,000,000	1,000,000
Russia	100,000	10,000,000	8,000,000	2,000,000	1,300,000	700,000
India	100,000	10,000,000	8,000,000	2,000,000	700,000	1,300,000
China	100,000	10,000,000	8,000,000	2,000,000	1,000,000	1,000,000
South Africa	100,000	10,000,000	8,000,000	2,000,000	990,788	1,009,212
Total	**500,000**	**50,000,000**	**40,000,000**	**10,000,000**	**4,990,788**	**5,009,212**

1 Pursuant to Article 9 and attachment 2 of the Agreement each founding members' paid in capital stock is received in 7 instalments.

On December 31, 2019 all paid-in capital from founding members was received in accordance with the Articles, and partial receipts relating to the fifth instalment has been received ahead of schedule.

Notes to the Annual Financial Statements

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29. Other reserves

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Accumulated impact on discounting of paid-in capital receivables	**(86,457)**	(162,429)
Total	**(86,457)**	(162,429)

Other reserves mainly represent the difference on the present value of paid-in receivables and the nominal amounts of subscribed paid-in capital arisen from the instalment payments of the subscribed paid-in capital, which is regarded as an equity transaction. The subsequent unwinding of interest on paid-in capital receivables is reclassified to other reserves, from retained earnings immediately occurs following the unwinding treatment in the relevant account period.

30. Reconciliation of assets and liabilities arising from financing activities

Assets and liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Bank's statement of cash flows as cash flows from financing activities. The table below details changes in the Bank's assets and liabilities arising from financing activities, including both cash and non-cash changes.

			Non-cash movements		
	As at January 1, 2019 USD'000	Cash inflows USD'000	Unwinding of interest USD'000	Impact of early payment USD'000	As at December 31, 2019 USD'000
Paid-in capital receivables	4,846,783	(1,209,212)	72,428	3,544	3,713,543
Total assets from Financing activities	**4,846,783**	**(1,209,212)**	**72,428**	**3,544**	**3,713,543**

				Non-cash movements			
USD'000	As at January 1, 2019 USD'000	Net financing cash inflows/ (outflows) USD'000	Interest accrued movements USD'000	Fair value changes USD'000	Foreign exchange movements USD'000	Operating cash outflows[1] USD'000	As at December 31, 2019
Short-term borrowings	–	110,000	53	–	–	–	110,053
Bond	443,809	448,012	24,664	(20,314)	–	(13,414)	882,757
Note payables	–	618,570	8,091	–	–	(3,405)	623,256
Lease liabilities	213	(83)	4	–	8	(4)	138
Total liabilities from Financing activities	**444,022**	**1,176,499**	**32,812**	**(20,314)**	**8**	**(16,823)**	**1,616,204**

1 USD 13,414 thousand represents an interest payment for the interest portion of bond which is recorded in the Bank's statement of cash flows as net cash used in operating activities.

USD 3,405 thousand represents an interest payment for the interest portion of note payables which is recorded in the Bank's statement of cash flows as net cash used in operating activities

USD 4 thousand represents an interest payment for the interest portion of lease liabilities which is recorded in the Bank's statement of cash flows as net cash used in operating activities.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

30. Reconciliation of assets and liabilities arising from financing activities – continued

			Non-cash movements		
	As at January 1, 2018 USD'000	Cash inflows USD'000	Unwinding of interest USD'000	Impact of early payment USD'000	As at December 31, 2018 USD'000
Paid-in capital receivables	5,933,354	(1,190,788)	93,822	10,395	4,846,783
Total assets from Financing activities	**5,933,354**	**(1,190,788)**	**93,822**	**10,395**	**4,846,783**

			Non-cash movements			
	As at January 1, 2018 USD'000	Cash inflows USD'000	Interest accrued movements USD'000	Fair value changes USD'000	Operating cash outflows[2] USD'000	As at December 31, 2018 USD'000
Short-term borrowings	–	13,000	7	–	(13,007)	–
Bond	449,367	–	13,590	(5,245)	(13,903)	443,809
Total liabilities from Financing activities	**449,367**	**13,000**	**13,597**	**(5,245)**	**(26,910)**	**443,809**

2 USD 13.9 million represents an interest payment for the bond which is recorded in the Bank's Statement of Cash Flows as net cash used in operating activities.

31. Commitments

1) Capital commitments

As at December 31, 2019, the Bank had no irrevocable capital expenditure commitments.

2) Credit commitments

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Letters of effectiveness signed	6,920,773	2,342,991
Letter of effectiveness yet to be signed	907,290	1,590,000
Total	**7,828,063**	**3,932,991**

Credit commitments represent general facility limits granted to borrowers. These credit facilities may be drawn on demand in the form of loans and advances upon the signing of the letter of effectiveness when the conditions precedent for the first drawdown have been complied with by borrowers.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

32. Related party disclosure

In the ordinary course of business, the Bank may grant loans to a government or through a government credit guarantee arrangement. The Bank is, in accordance with IAS 24, exempted from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

- A government that has control or joint control of, or significant influence over, the Bank; and
- Another entity that is a related party because the same government has control or joint control of, or significant influence over, both Bank and the other entity.

The name and relationship with founding member governments are disclosed below. On December 31, 2019 and 2018, no transactions, individually or collectively with government are considered significant to the Bank.

(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

According to the Headquarters Agreement between the Bank and the Government of the People's Republic of China, the Headquarters of the Bank and other relevant facilities to support the Bank's operations have been provided by the Government of the People's Republic of China, for free.

Details of the paid-in capital receivables as at December 31, 2019 and 2018 are set out in Note 17, and unwinding of interest on paid-in capital receivables for the years ended December 31, 2019 and 2018 are set out in the statement of profit or loss and other comprehensive income.

(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 December 31, 2019:

Name	Country	Position
Vaman Kundapur Kamath	India	President
Sarquis Jose Buainain Sarquis	Brazil	Vice President; Chief Risk Officer
Vladimir Kazbekov	Russia	Vice President; Chief Administrative Officer
Xian Zhu	China	Vice President; Chief Operations Officer
Leslie Warren Maasdorp	South Africa	Vice President; Chief Financial Officer

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

	For the year ended December 31, 2019 USD'000	For the year ended December 31, 2018 USD'000
Salary and allowance	2,483	2,427
Staff Retirement Plan	362	354
Post-Retirement Insurance Plan	62	61
Other short term benefits	88	95
Total	**2,995**	**2,937**

Notes to the Annual Financial Statements

For the year ended December 31, 2019

32. Related party disclosure – continued

(4) Use of office building and other facilities

Based on Article 3 of the Headquarters Agreement, China shall arrange to build and furnish a suitable office building to serve as the Headquarters of the Bank and provide such other facilities as required for its operation free of charge.

33. Segment information

For the year ended December 31, 2019, the Bank has a single reportable segment and evaluates the financial performance of the Bank as a whole.

34. Unconsolidated structured entity

The Board of Governors approved the establishment of the NDB Project Preparation Fund ("NDB-PPF") on January 20, 2017. The NDB-PPF, established and administered by the Bank based on Article 3 of the Agreement, is an unconsolidated structured entity for accounting purposes. The objective of the NDB-PPF is to help NDB achieve its purpose of promoting infrastructure and sustainable development by supporting the preparation of bankable projects to facilitate borrowing member countries to raise funds for such projects from NDB and other financial institutions. The Bank is entrusted with the administration of the NDB-PPF to fulfill its purpose. The NDB-PPF does not expose the Bank to any loss, nor does it generate significant variable interest to the extent that consolidation is required. Accordingly, the NDB-PPF is an unconsolidated structured entity for accounting purposes.

Consistent with Article 18c of the Agreement, the ordinary capital resources of the Bank and the resources of the NDB-PPF shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separate from each other. The NDB-PPF will be open to contributions from all its member countries. Non-member countries and international organisations/funds may also contribute to the NDB-PPF with the Board of Director's approval authorised by the Board of Governors.

As at December 31, 2019, the NDB-PPF had received contributions amounting to USD 7 million (December 31, 2018: USD 6.5 million). The Bank has not earned any income from NDB-PPF for the years ended December 31, 2019 and 2018.

Notes to the Annual Financial Statements

For the year ended December 31, 2019

35. Subsequent events

On January 2, 2020, USD 300 million of paid-in capital relating to the fifth instalment was received from India.

On January 10, 2020, USD 35 million of paid-in capital relating to the partial receipts of the sixth instalment was received from Russia.

On March 2, 2020, USD 350 million of paid-in capital relating to the sixth instalment was received from China.

On December 3, 2019, a loan agreement for RMB 2 billion was signed with China to finance the Guangdong Yudean Yangjiang Shapa Offshore Wind Power Project. This agreement became effective on January 13, 2020.

On March 20, 2020, a loan agreement for RMB 7 billion was signed with China to finance the Emergency Assistance Program in Combating COVID-19. This agreement became effective on March 23, 2020.

On April 3, 2020, the Bank issued a RMB 5 billion bond for a 3-year tenor with an annual fixed coupon rate of 2.43%.

On January 9, 2020, the Bank issued a USD 200 million zero-coupon note with the maturity date within one year.

On January 21, 2020, the Bank issued a USD 45 million zero-coupon note with the maturity date within one year.

On January 21, 2020, the Bank issued a USD 50 million zero-coupon note with the maturity date within one year.

On January 22, 2020, the Bank issued a USD 50 million zero-coupon note with the maturity date within one year.

On February 27, 2020, the Bank issued a USD 80 million zero-coupon note with the maturity date within one year.

On March 3, 2020, the Bank issued a USD 30 million zero-coupon note with the maturity date within one year.

On March 10, 2020, the Bank issued a USD 50 million zero-coupon note with the maturity date within one year.

On March 11, 2020, the Bank issued a USD 20 million zero-coupon note with the maturity date within one year.

On April 9, 2020, the Bank issued a USD 20 million zero-coupon note with the maturity date within one year.

36. Approval of annual financial statements

The annual financial statements were approved by the Board of Governors and authorised for issuance on April 20, 2020.

PPF Annual Financial Statements

For the year ended December 31, 2019

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PPF Annual Financial Statements

Responsibility for external financial reporting

Management's responsibility

NDB's Management is responsible for the preparation, integrity and fair presentation of the annual financial statements and all other information presented in the Annual Report 2019. The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and in accordance with the accounting policies of NDB-PPF.

The financial statements have been audited by independent external auditors. The Management believes that all representations made to the independent external auditors during their audit were valid and appropriate.

NDB's Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial presentations, in conformity with IFRSs. The ARC Committee assists the BoD in its responsibility to ensure the soundness of the Bank's accounting policies, guidelines, practices and effective implementation of internal controls. The external auditors and the internal auditors meet regularly with the ARC Committee, with and without other members of the Management team being present, to discuss the adequacy of internal controls over financial reporting and any other matters which they believe should be brought to the attention of the ARC Committee.

The external auditors have provided an audit opinion on the NDB-PPF annual financial statements presented within this Annual Report set out on pages **130** and **131**.

Independent Auditor's Report

To the Board of Governors of the New Development Bank (the "Bank")

Opinion

We have audited the financial statements of the New Development Bank Project Preparation Fund (the "NDB-PPF"), which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in 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 financial statements give a true and fair view of the financial position of the NDB-PPF as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the NDB-PPF 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.

Responsibilities of Management and the Board of Governors of the Bank 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 of the Bank is responsible for assessing the NDB-PPF'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 NDB-PPF or to cease operations, or have no realistic alternative but to do so.

The Board of Governors of the Bank is responsible for overseeing the NDB-PPF's financial reporting process.

Independent Auditor's Report – continued

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 NDB-PPF's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the Bank.

- Conclude on the appropriateness of the management of the Bank'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 NDB-PPF'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 NDB-PPF 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 the Board of Governors of the Bank 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 CPA LLP

Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Shanghai, People's Republic of China

April 20, 2020

Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2019

Expressed in thousands of USD	Notes	Year ended December 31, 2019	From January 20, 2017 to December 31, 2018
Interest income	6	**192**	119
Operating expenses	7	**(46)**	(30)
Profit for the year/period		**146**	**89**
Total comprehensive income for the year/period		**146**	**89**

Statement of Financial Position

As at December 31, 2019

Expressed in thousands of USD	Notes	As at December 31, 2019	As at December 31, 2018
Assets			
Cash and cash equivalents	8	**3,262**	6,619
Due from banks other than cash and cash equivalents	9	**4,000**	–
Other assets		**1**	–
Total assets		**7,263**	**6,619**
Liabilities			
Other liabilities		**28**	30
Total liabilities		**28**	**30**
Equity			
Contribution	10	**7,000**	6,500
Retained earnings		**235**	89
Total equity		**7,235**	**6,589**
Total equity and liabilities		**7,263**	**6,619**

The financial statements on pages 132 to 143 were approved and authorised for issuance by the Board of Governors on April 20, 2020 and signed on their behalf by:

President

Chief Financial Officer

Statement of Changes in Equity

For the year ended December 31, 2019

Expressed in thousands of USD	Note	Contribution	Retained earnings	Total
As at January 1, 2019		6,500	89	**6,589**
Profit for the year		–	146	**146**
Total comprehensive income for the year		–	146	**146**
Contribution	10	500	–	**500**
As at December 31, 2019		**7,000**	**235**	**7,235**

Expressed in thousands of USD	Note	Contribution	Retained earnings	Total
As at January 20, 2017		–	–	**–**
Profit for the period		–	89	**89**
Total comprehensive income for the period		–	89	**89**
Contribution	10	6,500	–	**6,500**
As at December 31, 2018		**6,500**	**89**	**6,589**

Statement of Cash Flows

For the year ended December 31, 2019

Expressed in thousands of USD	Year ended December 31, 2019	From January 20, 2017 to December 31, 2018
Operating activities		
Profit for the year/period	**146**	89
Operating cash flows before changes in operating assets and liabilities	**146**	89
Net increase in due from banks	**(4,000)**	–
Net increase in other assets	**(1)**	–
Net (decrease)/increase in other liabilities	**(2)**	30
Net cash (used in)/from operating activities	**(3,857)**	**119**
Financing activities		
Contributions received	**500**	6,500
Net cash from financing activities	**500**	**6,500**
Net (decrease)/increase in cash and cash equivalents	**(3,357)**	6,619
Cash and cash equivalents at the beginning of the year/period	**6,619**	–
Cash and cash equivalents at the end of the year/period	**3,262**	**6,619**

Notes to the Financial Statements

For the year ended December 31, 2019

1. General information

The Board of Governors of the New Development Bank ("NDB" or the "Bank") approved the establishment of the NDB Project Preparation Fund (the "NDB-PPF") on January 20, 2017 (the establishment date of the NDB-PPF) in accordance with Article 23a of the Agreement on the New Development Bank (the "Agreement").

The NDB-PPF is established as a multi-donor fund which is open to contributions by all the Bank's members (the "Contributors"). The objective of the NDB-PPF is to help NDB achieve its purpose of promoting infrastructure and sustainable development by supporting the preparation of bankable projects to facilitate borrowing member countries to raise funds for such projects from NDB and other financial institutions. As stipulated in Article 18c of the Agreement, the ordinary capital resources and the NDB-PPF resources of the Bank shall be held, used, committed, invested, or otherwise disposed of entirely separate from each other.

On September 4, 2017, the Bank signed a contribution agreement with the People's Republic of China ("China") in respect of the commitment and contribution from China in an amount of USD 4,000,000 to the NDB-PPF. The Bank also signed a contribution agreement with the Ministry of Finance of the Russian Federation (the "Russian MOF") on October 15, 2017 in respect of the commitment and contribution from the Russian MOF in an amount of USD 1,500,000 which shall be paid in three instalments to the NDB-PPF. On April 19, 2018, the Bank signed a contribution agreement with the Republic of India ("India"), for USD 1,500,000 which was paid in one instalment.

As of December 31, 2019, all the contribution of USD 4,000,000, USD 1,500,000 and USD 1,500,000 has been received from China, India and the Russian MOF respectively by the NDB-PPF.

2. Application of international financial reporting standards

For the purpose of preparing and presenting the financial statements, the NDB-PPF has 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 year.

The NDB-PPF has applied the following amendments to IFRSs which are relevant to the NDB-PPF for the first time in the current year:

Amendments to IFRS 9	Prepayment Features with Negative Compensation

The application of the above amendments to IFRSs in the current year has had no material impact on the NDB-PPF's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2019

2. Application of international financial reporting standards – continued

The NDB-PPF has not early adopted the following new and amendments to IFRSs that have been issued but not yet become effective:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after January 1, 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after January 1, 2020.
5 Effective for annual periods beginning on or after January 1, 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The NDB-PPF anticipates that the application of these new and amendments to IFRSs will have no material impact on the financial statements in the foreseeable future.

3. Significant accounting policies and basis of preparation

Basis of preparation

The financial statements have been prepared on the historical cost basis in accordance with the accounting policies set out below, which are in conformity with IFRSs.

Historical cost is generally based on the fair value of the consideration given in exchange of 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 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 NDB-PPF 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.

Analysis of fair value disclosures uses a hierarchy that reflects the significant inputs used in measuring the fair value. 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. The fair value hierarchy is as below.

- **Level 1:**
  Quoted prices (unadjusted) in active markets for identical assets or liabilities that the NDB-PPF can access at the measurement date;

- **Level 2:**
  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 preparation of the financial statements, in conformity with IFRSs, requires the use of certain accounting estimates. This requires management to exercise its judgement in preparing the financial statements.

The principal accounting policies adopted are set out below and have been applied consistently to the year/period presented.

Notes to the Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation – continued

Revenue

Interest income

Interest income is recognised in profit or loss for interest-bearing financial assets using the effective interest rate method, on the accrual basis.

The effective interest rate method is a method of calculating the amortised cost of a financial asset (including a group of financial assets) 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 over the expected life of the financial asset to the gross carrying amount of a financial asset. When calculating the effective interest rate, the NDB-PPF 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.

Financial instruments

Initial recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The NDB-PPF's financial instruments mainly consist of cash and cash equivalents and due from banks.

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or issue of 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 transaction costs directly attributable to the acquisition of financial assets or the issue of financial liabilities.

Classification of financial instruments

Financial assets

The NDB-PPF classifies its financial assets under IFRS 9, into the following measurement categories:
- Financial assets at FVTPL;
- Financial assets measured at amortised cost; and
- Financial assets measured at Fair Value Through Other Comprehensive Income ("FVTOCI");

The classification depends on the NDB-PPF's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Notes to the Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Classification of financial instruments – continued

Financial assets – continued

Financial assets at FVTPL

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at FVTOCI. Upon initial recognition, financial instruments may be designated as FVTPL. A financial asset may only be designated at FVTPL if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.

Financial assets measured at amortised cost

The NDB-PPF classifies a financial asset at amortised cost when the following conditions have been met:

- the financial asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- the contractual terms of the financial asset gives rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets measured at FVTOCI

The NDB-PPF classifies a financial asset at FVTOCI if it is held within a business model whose objective is both to hold the financial asset to collect contractual cash flows and to sell the financial asset, and the contractual terms of the financial asset gives rise to cash flows on specified dates that are SPPI.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the NDB-PPF may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies. Financial assets at FVTPL are measured at fair value at the end of each reporting year/period, with any fair value gains or losses recognised in profit or loss.

Financial liabilities and equity

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the NDB-PPF or a contract that will or may be settled in the NDB-PPF's own equity instruments and is a non-derivative contract for which the NDB-PPF is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over the NDB-PPF's own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the NDB-PPF's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the NDB-PPF are recognised at the proceeds received, net of direct issue costs.

The NDB-PPF's financial liabilities are measured at amortised cost, using the effective interest method.

The NDB-PPF recognises contributions as equity on the basis that the contribution agreement does not include a contractual obligation of the NDB-PPF to pay cash or another financial asset, and there are no other features that would meet the definition of a financial liability.

Notes to the Financial Statements

For the year ended December 31, 2019

3. Significant accounting policies and basis of preparation – continued

Financial instruments – continued

Impairment

IFRS 9 requires recognition of Expected Credit Losses ("ECL") on the financial assets accounted for at amortised cost, FVTOCI and certain unrecognised financial instruments such as loan commitments. ECL of a financial instrument 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.

The NDB-PPF applies a three-stage approach to measuring ECL on financial assets accounted for at amortised cost. Financial 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 are not credit impaired, a lifetime ECL is recognised.

iii) Stage 3: Lifetime ECL – credit impaired

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. For financial assets that are credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost rather than the gross carrying amount. The NDB-PPF identifies financial assets as being credit impaired when one or more events that could have a detrimental impact on future cash flows of the financial asset have occurred.

More details about credit risk analysis are provided in Note 4.

Derecognition of financial instruments

The NDB-PPF derecognises a financial asset when the contractual rights to the cash flows from the asset expire. The NDB-PPF derecognises financial liabilities when the NDB-PPF's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial instruments derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

Cash comprises deposits that can be readily withdrawn on demand. Cash equivalents are the NDB-PPF's short-term, highly-liquid investments that are readily convertible to known amounts of cash within three months and are not subject to a significant risk of change in value.

Notes to the Financial Statements

For the year ended December 31, 2019

4. Financial risk management

Overview

The NDB-PPF follows the risk management policies of the Bank. The Bank has established various risk management policies approved by the Board of Directors 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 set out the risk management strategy and the risk tolerance level in different risk management policies.

The primary responsibility for risk management at an operational level rests with the management. Management and various specialist committees are tasked with integrating the management of risk into the day-to-day activities of NDB-PPF, by monitoring related risk parameters and tolerance through policies and procedures under the strategy approved by designated committees.

The NDB-PPF was not exposed to many financial risks with the exception of credit risk and interest rate risk associated with the financial institutions with which it deposited its cash resources for the year ended December 31, 2019. The impact of a change in interest rates during the reporting year/period is not considered significant by management.

Credit risk

The NDB-PPF takes on exposure to credit risk, which is a risk that one counterparty to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The NDB-PPF placed its cash equivalents and deposits with highly-rated banks (senior investment grade credit ratings) in mainland China. There has been no significant increase in credit risk since initial recognition associated with the amounts due from banks up to December 31, 2019. All the financial instruments of the NDB-PPF as of December 31, 2019 and December 31, 2018 are measured at amortised cost.

5. Fair value of financial assets and liabilities

Fair value of the NDB-PPF's financial instruments that are not measured at fair value on a recurring basis

The NDB-PPF considered that the carrying amounts of financial assets and financial liabilities measured at amortised cost, in the NDB-PPF's statements of financial position, approximate their fair values.

6. Interest income

	Year ended December 31, 2019 USD'000	For the period from January 20, 2017 to December 31, 2018 USD'000
Interest income from banks	**192**	119
Total	**192**	**119**

Notes to the Financial Statements

For the year ended December 31, 2019

7. Operating expenses

	Year ended December 31, 2019 USD'000	For the period from January 20, 2017 to December 31, 2018 USD'000
Auditor's remuneration	**46**	28
Other expenses	**–**	2
Total	**46**	**30**

8. Cash and cash equivalents

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Deman deposit	**172**	218
Time deposit with original maturity within three months	**3,090**	6,401
Total	**3,262**	**6,619**

9. Due from banks other than cash and cash equivalents

	As at December 31, 2019 USD'000	As at December 31, 2018 USD'000
Commercial banks	**7,090**	6,401
Total	**7,090**	6,401
Less: time deposit with original maturity within three months	**(3,090)**	(6,401)
Total	**4,000**	**–**

Notes to the Financial Statements

For the year ended December 31, 2019

10. Contributions

As at December 31, 2019	Contribution committed USD'000	Contribution received USD'000
China	**4,000**	4,000
India	**1,500**	1,500
Russia	**1,500**	1,500
Total	**7,000**	**7,000**

As at December 31, 2018	Contribution committed USD'000	Contribution received USD'000
China	**4,000**	4,000
India	**1,500**	1,000
Russia	**1,500**	1,500
Total	**7,000**	**6,500**

11. Related party disclosures

The NDB-PPF's related parties are the Bank and the Contributors.

The contributions received from the Contributors as of December 31, 2019 and December 31, 2018 are detailed in Note 10.

12. Subsequent events

Up to the date of the issuance of the financial statements, there has been no material subsequent events since December 31, 2019 that would require additional disclosure or adjustment to the financial statements.

13. Approval of financial statements

The financial statements were approved by the Management and the Board of Governors of the Bank and authorised for issuance on April 20, 2020.

List of Abbreviations and Defined Terms

Abbreviation/defined term	Definition
2030 Agenda	United Nations 2030 Agenda for Sustainable Development
ADB	Asian Development Bank
AfDB	African Development Bank
AoA or the Agreement	Articles of Agreement
AI	Artificial Intelligence
AML	Anti-Money Laundering
ARC	Africa Regional Centre
ARC Committee	Audit, Risk and Compliance Committee
ARO	Americas Regional Office
BHRC Committee	Budget, Human Resources and Compensation Committee
BNDES	Brazilian Development Bank
BoD	Board of Directors
BoG	Board of Governors
BRICS	Brazil, Russia, India, China and South Africa
CHF	Swiss Franc
CIC	Credit and Investment Committee
CMF	Capital Management Framework
CO_2	Carbon Dioxide
CUR	Capital Utilisation Ratio
EAD	Exposure at Default
ECL	Expected Credit Loss
ECP	Euro Commercial Paper
EDB	Eurasian Development Bank
EMDCs	Emerging Market Economies and Developing Countries
EMTN	Euro Medium Term Note
ESF	Environment and Social Framework
ERC	Eurasian Regional Centre
Eskom	Eskom Holdings SOC Ltd
EUR	Euro
FAO	Food and Agriculture Organization of the United Nations
FVTOCI	Fair Value through other Comprehensive Income
FVTPL	Fair Value through Profit and Loss
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GWh	Gigawatts-hour
IASs	International Accounting Standards
IASB	International Accounting Standards Board
IDC	Industrial Development Corporation of South Africa
IFRIC	International Financial Reporting Interpretations Committee

Abbreviation/definied term	Definition
IFRSs	International Financial Reporting Standards
IIB	International Investment Bank
IMF	International Monetary Fund
INR	Indian Rupee
ISAs	International Standards on Auditing
ISDA	International Swaps and Derivatives Association
IT	Information Technology
km	Kilometre
KMP	Key Management Personnel
LEED-NC	Leadership in Energy and Environmental Design-New Construction
LGD	Loss Given Default
m^3	Cubic Metre
Management	President and Vice Presidents
MDB	Multilateral Development Bank
mg	Milligram
MW	Megawatt
MWh	Megawatt-hour
NDB or the Bank	New Development Bank
NII	Net Interest Income
OECD	Organisation for Economic Co-operation and Development
Paris Agreement	Paris Agreement on Climate Change
PIT-PD	Point-in-time Probability of Default
PPF	Project Preparation Fund
PRP	Post Retirement Plan
RMB	Renminbi
RUB	Russian Ruble
SANRAL	South African National Roads Agency SOC Ltd
SDG	Sustainable Development Goal
SO_2	Sulphur Dioxide
SOE	State-owned Enterprise
SPPI	Solely Payments of Principal and Interest
SRP	Staff Retirement Plan
TCTA	Trans-Caledon Tunnel Authority
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
VaR	Value-at-Risk
WARR	Weighted Average Risk Rating
ZAR	South African Rand

List of Projects Approved by NDB

No.	Project name	Type	Country	Financing currency	Financing amount (million)
2016					
1	**Financing of Renewable Energy Projects and Associated Transmission (BNDES)**	Non-sovereign	Brazil	USD	300
2	**Canara Renewable Energy Financing Scheme** [68]	Sovereign	India	USD	250
3	**Lingang Distributed Solar Power Project**	Sovereign	China	RMB	525
4	**Project Finance Facility for Eskom**	Sovereign	South Africa	USD	180
5	**Nord-Hydro Project (On-lending through EDB)**	Non-sovereign	Russia	USD	50
6	**Nord-Hydro Project (On-lending through IIB)**	Non-sovereign	Russia	USD	50
7	**Madhya Pradesh Major District Roads Project**	Sovereign	India	USD	350
8	**Putian Pinghai Bay Offshore Wind Power Project**	Sovereign	China	RMB	2,000
2017					
9	**Judicial System Support Project**	Sovereign	Russia	USD	460
10	**Madhya Pradesh Multi Village Water Supply Project**	Sovereign	India	USD	470
11	**Hunan Ecological Development Project**	Sovereign	China	RMB	2,000
12	**Jiangxi Industrial Low Carbon Restructuring and Green Development Pilot Project**	Sovereign	China	USD	200
13	**Ufa Eastern Exit Project** [69]	Sovereign	Russia	USD	69
14	**Rajasthan Water Sector Restructuring Project**	Sovereign	India	USD	345
2018					
15	**Pará Sustainable Municipalities Project**	Sovereign	Brazil	USD	50
16	**Maranhão Road Corridor – South North Integration**	Sovereign	Brazil	USD	71
17	**Environmental Protection Project**	Non-sovereign	Brazil	USD	200
18	**Volga Water Supply and Sanitation Systems Project**	Sovereign	Russia	USD	320
19	**Small Historic Cities Development Project**	Sovereign	Russia	USD	220
20	**Bihar Rural Roads Project**	Sovereign	India	USD	350
21	**Chongqing Small Cities Sustainable Development Project**	Sovereign	China	USD	300
22	**Durban Container Terminal Berth Reconstruction Project**	Non-sovereign	South Africa	USD	200
23	**Luoyang Metro Project**	Sovereign	China	USD	300
24	**Greenhouse Gas Emissions Reduction and Energy Sector Development Project**	Non-sovereign	South Africa	USD	300
25	**Sustainable Infrastructure in Relation to "ZapSibNefteKhim" Project**	Non-sovereign	Russia	USD	300
26	**Madhya Pradesh Major District Roads II Project**	Sovereign	India	USD	350
27	**Madhya Pradesh Bridges Project**	Sovereign	India	USD	175
28	**Mumbai Metro Rail Project**	Sovereign	India	USD	260
29	**Hohhot New Airport Project**	Sovereign	China	RMB	4,200
30	**Guangdong Yudean Yangjiang Shapa Offshore Wind Power Project**	Sovereign	China	RMB	2,000
31	**Jiangxi Natural Gas Transmission System Development Project**	Sovereign	China	USD	400

No.	Project name	Type	Country	Financing currency	Financing amount (million)
2019					
32	**Zhejiang Green Urban Project – Shengzhou Urban and Rural Integrated Water Supply and Sanitation Project Phase II**	Sovereign	China	RMB	825
33	**Chongzuo Water Resource Rehabilitation and Ecological Conservation Project**	Sovereign	China	USD	300
34	**Lesotho Highlands Water Project Phase II (Project Loan to TCTA)**	Sovereign	South Africa	ZAR	3,200
35	**Environmental Protection Project for Medupi Thermal Power Plant**	Sovereign	South Africa	USD	480
36	**Renewable Energy Sector Development Project**	Non-sovereign	South Africa	ZAR	1,150
37	**Ningxia Yinchuan Integrated Green Transport Development Project**	Sovereign	China	RMB	2,100
38	**Lanzhou New Area Regional Hub Multimodal Logistics and Transport Infrastructure Demonstration Project**	Sovereign	China	RMB	2,512
39	**Assam Bridge Project**	Sovereign	India	USD	300
40	**Development of Renewable Energy Sector in Russia Project**	Non-sovereign	Russia	USD	300
41	**Andhra Pradesh Roads and Bridges Reconstruction Project**	Sovereign	India	USD	323
42	**Andhra Pradesh Mandal Connectivity and Rural Connectivity Improvement Project**	Sovereign	India	USD	323
43	**South African National Toll Roads Strengthening and Improvement Programme**	Sovereign	South Africa	ZAR	7,000
44	**Fundo Clima – Brazil National Climate Fund Project**	Sovereign	Brazil	USD	500
45	**REC Renewable Energy Sector Development Project**	Non-sovereign	India	USD	300
46	**North Region Transportation Infrastructure Improvement Project**	Non-sovereign	Brazil	USD[70]	300
47	**Manipur Water Supply Project**	Sovereign	India	USD	312
48	**Indore Metro Rail Project**	Sovereign	India	USD	225
49	**Huangshi Modern Tram Project**	Sovereign	China	RMB	2,760
50	**Patria Infrastructure Fund IV**	Non-sovereign	Brazil	USD	100
51	**Locomotive Fleet Renewal Programme in Russia**	Non-sovereign	Russia	CHF	500
52	**Eskom Battery Energy Storage Project**	Sovereign	South Africa	ZAR	6,000
53	**Development of Educational Infrastructure for Highly Skilled Workforce**	Sovereign	Russia	EUR	Equivalent to USD 500

68 Cancelled in 2018.
69 Cancelled in 2019.
70 Includes a USD 50 million portion which could be delivered in RMB.

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