THE NEW DEVELOPMENT BANK

Independent Auditor's Report and
Financial Statements
For the year ended 31 December 2018
(Prepared in accordance with International Financial
Reporting Standards)

THE NEW DEVELOPMENT BANK

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF GOVERNORS OF THE NEW DEVELOPMENT BANK

Opinion

We have audited the financial statements of the New Development Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2018, 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 31 December 2018, 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 comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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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.

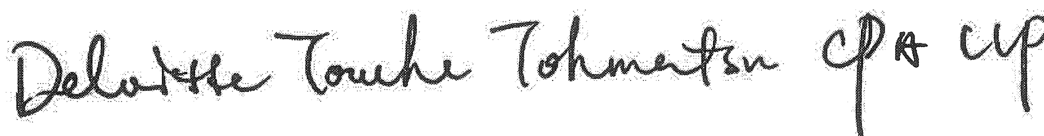
INDEPENDENT AUDITOR'S REPORT - CONTINUED

Auditor's Responsibility for the Audit of the Financial Statements - continued

- 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
Certified Public Accountants LLP
Shanghai, PRC

1 April 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
EXPRESSED IN THOUSANDS OF USD

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
Interest income	7	123,400	63,863
Interest expense	7	(13,597)	(14,020)
Net interest income	7	109,803	49,843
Net fee income	8	418	21
Net gains on financial instruments at fair value through profit or loss	9	7,809	1,291
		118,030	51,155
Other Income		-	74
Staff costs	10	(25,310)	(18,823)
Other operating expenses	11	(11,936)	(7,342)
Impairment provision	5	(3,758)	(23)
Foreign exchange (losses)/gains		(4,989)	5,811
Operating profit for the year		72,037	30,852
Unwinding of interest on paid-in capital receivables		93,822	127,160
Profit for the year		165,859	158,012
Total comprehensive income for the year		165,859	158,012

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018
EXPRESSED IN THOUSANDS OF USD

	Notes	As at December 31, 2018	As at December 31, 2017
Assets			
Cash and cash equivalents	12	122,988	1,019,854
Due from banks other than cash and cash equivalents	13	4,800,559	3,245,623
Loans and advances	14	628,104	23,997
Paid-in capital receivables	15	4,846,783	5,933,354
Property and equipment	16	1,205	594
Intangible assets	17	931	54
Derivative financial assets	18	710	-
Other assets	19	1,133	642
Total assets		10,402,413	10,224,118
Liabilities			
Derivative financial liabilities	18	6,374	3,331
Financial liabilities designated at fair value through profit or loss	20	443,809	449,367
Other liabilities	21	7,367	2,811
Total liabilities		457,550	455,509
Equity			
Paid-in capital	22	10,000,000	10,000,000
Other reserves	23	(162,429)	(266,646)
Retained earnings		107,292	35,255
Total equity		9,944,863	9,768,609
Total equity and liabilities		10,402,413	10,224,118

The annual financial statements on pages 4 to 45 were approved and authorised for issue by the Board of Governors on April 1, 2019 and signed on their behalf by:

President

Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
EXPRESSED IN THOUSANDS OF USD

	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 15)	-	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

	Paid-in capital	Other reserves	Retained earnings	Total
As at January 1, 2017	10,000,000	(398,981)	4,403	9,605,422
Operating profit for the year	-	-	30,852	30,852
Unwinding of interest on paid-in capital receivables for the year	-	-	127,160	127,160
Total comprehensive income for the year	-	-	158,012	158,012
Impact of early payment on paid-in capital receivables (Note 15)	-	5,175	-	5,175
Reclassification of unwinding of interest arising from paid-in capital receivables	-	127,160	(127,160)	-
As at December 31, 2017	10,000,000	(266,646)	35,255	9,768,609

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
EXPRESSED IN THOUSANDS OF USD

	Year ended December 31, 2018	Year ended December 31, 2017
OPERATING ACTIVITIES		
Profit for the year	165,859	158,012
Adjustments for		
Interest expense	13,597	14,020
Depreciation and amortisation	229	102
Unrealised (gains)/losses on financial instruments	(2,912)	5,245
Unwinding of interest on paid-in capital receivables	(93,822)	(127,160)
Impairment provisions for loans and commitments	3,758	23
Operating cash flows before changes in operating assets and liabilities	86,709	50,242
Net increase in due from banks other than cash and cash equivalents	(1,554,936)	(941,526)
Net increase in loans and advances	(604,228)	(22,929)
Net increase in other assets	(491)	(398)
Net increase in other liabilities	919	485
Interest paid	(13,910)	(13,600)
NET CASH USED IN OPERATING ACTIVITIES	(2,085,937)	(927,726)
INVESTING ACTIVITIES		
Purchase of property and equipment and intangible assets	(1,717)	(236)
NET CASH USED IN INVESTING ACTIVITIES	(1,717)	(236)
FINANCING ACTIVITIES		
Paid-in capital received	1,190,788	1,600,000
Proceeds from short-term borrowings	13,000	-
Repayment of short-term borrowings	(13,000)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,190,788	1,600,000
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(896,866)	672,038
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,019,854	347,816
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	122,988	1,019,854

1. GENERAL INFORMATION

The New Development 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, which is the first regional office of the Bank.

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, totalling 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, 2018, the Bank had 128 (December 31, 2017: 89) employees including the President and 4 (December 31, 2017: 4) Vice-Presidents. In addition, there were 16 (December 31, 2017: 17) 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 amendment in accordance with International Financial Reporting Standards (IFRSs) which are relevant to the Bank for the first time in the current year:

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Bank is required to determine the date of transaction for each payment or receipt of advance consideration. The application of this interpretation has had no significant impact on the amounts reported and/or disclosures set out in these financial statements.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

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

IFRS 16	Leases[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]

[1] Effective for annual periods beginning on or after January 1, 2019

IFRS 16 Leases

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. The classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion, which will be presented as financing and operating cash flows respectively.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

As at December 31, 2018, the Bank had non-cancellable operating lease commitments of USD 252 thousand as disclosed in Note 25. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, whereby the Bank will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless the lease qualifies for low value or short-term leases upon the application of IFRS 16. Furthermore, extensive disclosures are required by IFRS 16.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Bank anticipates that the application of IFRS 16 is unlikely to have a significant impact on the Bank's annual financial statements.

The Bank intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4, Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Bank will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Bank intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the Solely Payments of Principal and Interest (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the condition of solely payments of principal and interest if specified criteria are met. The Bank anticipates that the application of amendments to IFRS 9 is unlikely to have a significant impact on the Bank's annual financial statements.

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 values 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 within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 Impairment of Assets.

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 Critical Accounting Estimates and Judgements Applied by Management.

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

Revenue

Under IFRS 15, 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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Revenue - continued

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 and 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.

For contracts that contain variable consideration, the Bank estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Bank will be entitled to.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Bank updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Net 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Borrowing costs

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

Property and equipment

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 Bank starts depreciating an item of property and equipment in the month following the acquisition date.

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

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

Classes	Estimated residual value rates	Useful lives
IT equipment	0%	5 years
Appliance	0%	5 years
Furniture	0%	5 years
Vehicle	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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Impairment of tangible and intangible assets other than financial assets

At the end of the reporting period, the Bank reviews the carrying amounts of its tangible and 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. 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss reversal is treated as a revaluation increase.

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, 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.

Recognised financial assets and financial liabilities measured at FVTPL are initially measured at fair value except for trade receivables from IFRS 15. 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 or issue of the financial assets or financial liabilities.

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 cash flows of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding on specified dates.

The Bank applies the effective interest method to the amortised costs of a financial asset.

Financial assets measured at FVTOCI

The Bank classifies debt instruments at FVTOCI if they are held within a business model whose objective is both to hold the financial asset to collect contractual cash flows and to sell the financial assets, and that have contractual 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/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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Classification of financial instruments - continued

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 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.

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.

The Bank classifies its financial liabilities under IFRS 9 into the following categories:

- Financial liabilities at FVTPL; and
- Financial liabilities measure at amortised cost.

A financial liability is classified as 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.

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 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 net interest income section above.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

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 and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 18.

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.

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.

Refer to Note 5 for the disclosure regarding significant increases in credit risk, definition of default and credit-impaired financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

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.

Derecognition of financial instruments

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

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.

Leases

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

The Bank as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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.

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS APPLIED BY MANAGEMENT - continued

Valuation of derivative contracts and bond 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.

Refer to Note 5 for additional disclosure on the ECL allowance.

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.

5. FINANCIAL RISK MANAGEMENT - continued

Overview - continued

The primary responsibility for risk management at an operational level rests with the management of the Bank. Management and various 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 which includes credit risk, liquidity risk and market risk which includes foreign exchange 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 the 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) Counterparty 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 limits would apply to exposures to single jurisdiction, sectors, obligors and products.

The Bank mainly relies on external credit ratings 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 borrowers and treasury counterparties. In cases where the loans are guaranteed by the governments of the individual countries, the credit risk is assessed on the guarantor. The risk division of the Bank monitors the overall credit risk profile of the Bank on a periodic basis.

For loans without a sovereign guarantee, the Bank will in due course use an internal credit rating taking into account specific project, sector, macro and country credit risks. The risk division of the Bank monitors the overall credit risk profile of the Bank on a periodic basis. The risk division obtains the latest rating result of the obligors to measure credit risk profile of the Bank.

A summary of rating grades that are being used by the Bank is as below:

- Senior investment grade: broadly corresponds with ratings of AAA to A- from global rating agencies or the Bank's internal credit rating.
- Investment grade: broadly corresponds with ratings of BBB+ to BBB- from global rating agencies or the Bank's internal credit rating.
- Sub-investment grade: broadly corresponds with ratings of BB+ up to but not including defaulted or impaired.

ECL measurement

As disclosed in Note 3, the Bank applies a three-stage model for impairment based on changes in credit quality since initial recognition. A new ECL calculation tool (Moody's model) has been used for the year ended December 31, 2018.

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.

Quantitative criteria:

- Delay in interest or principal payment exceeds 30 days;
- For investment grade loans, rating downgrade to non-investment grade; or
- For non-investment grade loans, rating downgrade by 2 notches compared to the rating at initial recognition.

Qualitative criteria:

- 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 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 a specific rating and 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 the LGD 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.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

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 for each following year;
- Discount rate is equal to the effective interest rate; and
- Lifetime of the loan is the remaining loan contract period.

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 Finance Committee.

$$Weighted\ Average\ ECL = \sum_{Scenarios} Weight_{Scenario} \times ECL_{Scenario}$$

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 25%, 45% and 30% respectively for optimistic, baseline and pessimistic scenarios, the amount of ECL would have been USD 4 million or increased by 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.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Definition of default - continued

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, 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 loan facilities for the next twelve months is between 0% to 1% at the dates of signing of loans agreements and as at December 31, 2018. There has been no significant increase in credit risk up to December 31, 2018 and all the loans are at stage 1.

As at December 31, 2017	Maximum facility USD'000	Effective facility USD'000	Utilised USD'000	Unutilised loan commitments USD'000
Senior investment grade	895,402	895,402	12,622	882,780
Investment grade	450,000	450,000	11,235	438,765
Sub-investment grade	300,000	-	-	-
Total	1,645,402	1,345,402	23,857	1,321,545
Interest Receivable			140	-
Less: Provision for loan and commitment			-	(23)
Carrying amount as at December 31, 2017			23,997	1,321,522

The PD associated with the above loan facilities for the next 12 months is between 0% to 1% at the dates of signing of loans agreements and as at December 31, 2017. There was no significant increase in credit risk up to December 31, 2017 and all the loans were at stage 1.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit exposure on loan facilities - continued

Reconciliation of provision for loans raised

	12-month Expected Credit Loss As at December 31, 2018 USD'000	12-month Expected Credit Loss As at December 31, 2017 USD'000
Provision at the beginning of the year	-	-
Provision for loans raised	2,655	-
Provision at the end of the year	2,655	-

Reconciliation of provision for loan commitments

	12-month Expected Credit Loss As at December 31, 2018 USD'000	12-month Expected Credit Loss As at December 31, 2017 USD'000
Provision at the beginning of the year	23	-
Provision for loan commitments raised	1,103	23
Provision at the end of the year	1,126	23

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, 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

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Concentration risk - continued

As at December 31, 2017	Effective facility	Utilised	Unutilised loan commitments
	USD'000	USD'000	USD'000
China	895,402	12,622	882,780
India	350,000	11,235	338,765
Russia	100,000	-	100,000
Total	1,345,402	23,857	1,321,545
Interest Receivable		140	-
Less: Provision for loans and commitments		-	(23)
Carrying amount as at December 31, 2017		23,997	1,321,522

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 ratings of banks are analysed as below:

	As at December 31, 2018	As at December 31, 2017
	USD'000	USD'000
Cash and cash equivalents		
Senior investment grade	122,976	1,019,848
Due from banks other than cash and cash equivalents		
Senior investment grade	4,800,559	3,245,623
Total	4,923,535	4,265,471

There has been no significant increase in credit risk since initial recognition associated with the amounts due from banks and loans and advances, for the year ended December 31, 2018 and 2017. The credit exposure on Cash and cash equivalents excludes 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 transactions for the purpose of achieving an economic hedge of currency and interest rate risk associated with the bond issued. The Bank chose counterparties with high credit ratings in mainland China and Hong Kong and entered into International Swaps and Derivatives Association (ISDA) agreements with these counterparties. Under the ISDA master agreement, if a counterparty defaults, 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 favourable to the Bank.

5. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk

The Bank's liquidity risk arises in the following way:

(i) Insufficient liquidity to settle obligations or to meet cash flow needs including, but not limited to, the inability to maintain normal lending operations via loan disbursements and other payment obligations; and
(ii) Inability to liquidate an investment within the required period of time without undue loss of value.

The Bank utilises a set of short-term, long-term and stressed metrics for identifying, monitoring and managing liquidity risk. The Bank balances the placement and tenor of its liquid assets to optimise interest income and provide a source of liquidity for strategic and day-to-day cash needs, as well as meeting unanticipated funding requirements. The Bank has funding lines with local and off-shore banks to cover short-term flows. For strategic funding requirements, the Bank has established and is developing arrangements to issue debt securities in its member countries and in other major global markets.

The Bank monitors liquidity risk through liquidity risk ratios and indicators, as prescribed in the liquidity risk management policy of the Bank. The ratios are cast as short-term ratios and longer-term ratios that determine the availability of liabilities to fund cash demands. The primary liquidity ratio is based on the 12-month availability of naturally-maturing and easily-disposable assets to meet projected net cash requirements, known as the Prudential Minimum Liquidity (PML) level.

The following table represents the cash flows associated with financial assets and financial liabilities according to their contractual maturity as at the end of the reporting period. The balances in the table do not correspond with the statement of financial position, since liquidity risk management measures cash flows on an undiscounted basis and the figures therefore include both principal and associated future interest payments.

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

5. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

As at December 31, 2017	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	256,894	369,686	395,798	-	-	-	1,022,378
Due from banks	153,060[1]	143,080	258,750	1,866,746	876,959	-	3,298,595
Loans and advances	-	-	317	412	7,912	22,924	31,565
Paid-in capital receivables	-	-	-	-	6,200,000	-	6,200,000
Other financial assets	196	-	-	-	-	-	196
Financial liabilities designated at FVTPL	-	-	-	(13,994)	(469,982)	-	(483,976)
Other financial liabilities	(885)	-	-	-	-	-	(885)
Sub-total	409,265	512,766	654,865	1,853,164	6,614,889	22,924	10,067,873
Derivatives							
Net setting derivatives							
Interest rate swap - cash inflow	-	-	-	1,760	5,126	-	6,886
Interest rate swap - cash outflow	-	(981)	-	(2,064)	(8,039)	-	(11,084)
Gross setting derivatives							
Cross currency swap - cash inflow	-	-	-	11,263	376,861	-	388,124
Cross currency swap - cash outflow	-	(2,288)	-	(2,933)	(382,638)	-	(387,859)
Sub-total	-	(3,269)	-	8,026	(8,690)	-	(3,933)
Net	409,265	509,497	654,865	1,861,190	6,606,199	22,924	10,063,940

[1] The maturity of this one-year time deposit is December 31, 2017 and the Bank intends to renew it, accordingly the amount has been excluded from cash equivalent.

5. FINANCIAL RISK MANAGEMENT - continued

Market risk

Market risk is the risk that variations in market rates and values of the Bank's assets, liabilities and off-balance sheet positions result in a loss to the Bank. The Bank's exposure to market risk is currently derived from interest rate risks and exchange rate risks that emanate from the Bank's operations. In order to mitigate market risks, the Treasury and Portfolio Management division of the Bank exercise control over funding, 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 expose the Bank to interest rate risk, whilst changes in the macro-economic environment significantly impact the movement of interest rate curves in different currencies to which the Bank is exposed.

The Bank has limited tolerance for interest rate risk. The primary strategy for managing interest rate risk is to match the interest rate sensitivity of the Bank's liabilities and assets in individual currencies.

Interest rate risk arises principally from the basis, volatility and rate adjustment dates associated with the rates the Bank is exposed to. Accordingly, interest rate risk management aims to minimise mismatches of structure and tenor of interest rate sensitive assets and liabilities 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 gap below an approved limit by generating a stable overall positive net interest margin that is not unduly sensitive to sharp changes in market interest rates, but adequately responsive to general market trends.

Interest rate sensitivity analysis

Net Interest Income (NII) sensitivity analysis utilises projected earnings simulations to forecast, measure and manage interest rate risk.

The sensitivity analysis is prepared assuming a static year-long balance sheet for which the interest-bearing financial assets and liabilities outstanding at the end of each respective reporting period is constant for the whole year.

When reporting to the management of the Bank on the interest rate risk, a 25-basis points increase or decrease in the relevant interest rates will be adopted for sensitivity analysis. The impact of a change in interest rates on the reporting period is shown below.

	Impact on profit	
	For the year ended December 31, 2018	For the year ended December 31, 2017
	USD'000	USD'000
+ 25 basis points	7,959	4,952
- 25 basis points	(7,959)	(4,952)

5. FINANCIAL RISK MANAGEMENT - continued

Exchange rate risk

Exchange rate risk at the Bank arises from the impact of exchange rate variations on net unhedged positions in non-USD currencies. The Bank aims to reduce or limit exposure to exchange rate risk, while optimising its capacity to extend credit to clients. The Bank uses currency-linked derivative contracts to align the currency composition of its financial position. Exchange rate risk is measured using a net exposure limit in aggregate and individual non-USD currencies, as well as through value-at-risk in exchange rates.

Exchange rate sensitivity analysis

The following table shows the impact of an appreciation or depreciation of USD against foreign currencies as at December 31, 2018 and December 31, 2017 assuming that all other variables remain constant.

	Impact on Profit	
	For the year ended December 31, 2018	For the year ended December 31, 2017
	USD'000	USD'000
10% appreciation	(35)	46
10% depreciation	35	(46)

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, Capital Utilisation Ratio and Equity-to-Asset 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, 2018, 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 bonds designated at fair value and the derivatives as at December 31, 2018.

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. The level in the fair value hierarchy within which a fair value measurement is classified is determined on the basis of the lowest level input that is significant to the fair value measurement. The fair value hierarchy is as below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values are based on relevant information available at the reporting date and involve judgement.

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 bond issued, in view of the low trading volume and frequency.

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

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

	Level 1	Level 2	Level 3	Total
	USD'000	USD'000	USD'000	USD'000
As at December 31, 2018				
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

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 - continued

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
As at December 31, 2017				
Financial assets	-	-	-	-
Derivatives	-	-	-	-
Total financial assets measured at fair value	-	-	-	-
Financial liabilities				
Derivatives	-	3,331	-	3,331
Financial liabilities designated at fair value	-	449,367	-	449,367
Total financial liabilities measured at fair value	-	452,698	-	452,698

There were no transfers between Level 1 and 2 in for the year ended December 31, 2018 and December 31, 2017.

There were no third-party credit enhancements in the fair value measurement for financial liabilities designated at fair value as at December 31, 2018 and December 31, 2017.

Fair value of the Bank's financial instruments that are not measured at fair value on a recurring basis

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

7. NET INTEREST INCOME

	For the year ended December 31, 2018 USD'000	For the year ended December 31, 2017 USD'000
Interest income		
Interest income from banks	113,191	63,681
Interest income from loans and advances	10,209	182
Total interest income	123,400	63,863
Interest expense		
Interest expense of short term borrowings	(7)	-
Interest expense on bonds issued	(13,590)	(14,020)
Total interest expense	(13,597)	(14,020)
Net interest income	109,803	49,843

8. NET FEE INCOME

	For the year ended December 31, 2018 USD'000	For the year ended December 31, 2017 USD'000
Front-end fee recognised	155	21
Commitment fee	263	-
Total	418	21

9. NET GAINS ON FINANCIAL INSTRUMENTS AT FVTPL

	For the year ended December 31, 2018 USD'000	For the year ended December 31, 2017 USD'000
Derivatives	2,564	47,174
Bonds	5,245	(45,883)
Total	7,809	1,291

10. STAFF COSTS

	For the year ended December 31, 2018 USD'000	For the year ended December 31, 2017 USD'000
Salaries and allowances	19,400	15,770
Other benefits	5,910	3,053
Total	25,310	18,823

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, 2018 for the SRP and PRP was USD 4 million (2017: USD 2.5 million) and USD 442 thousand (2017: USD 284 thousand) respectively and is included in other benefits.

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 year ended December 31, 2018 and for the year ended December 31, 2017. 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, 2018 USD'000	For the year ended December 31, 2017 USD'000
Office expenses	2,737	2,338
Professional fees	3,448	2,126
Auditor's remuneration	513	310
Travel expenses	3,106	2,020
Technology expenses	1,777	239
Hospitality expenses	116	101
Depreciation and amortisation	229	102
Others	10	106
Total	11,936	7,342

12. CASH AND CASH EQUIVALENTS

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Cash on hand	12	6
Demand deposit	97,301	256,888
Time deposit with original maturity within three months	25,675	762,960
Total	122,988	1,019,854

13. DUE FROM BANKS OTHER THAN CASH AND CASH EQUIVALENTS

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Commercial banks	4,826,234	4,008,583
Total	4,826,234	4,008,583
Less: Time deposit with original maturity within three months	(25,675)	(762,960)
Total	4,800,559	3,245,623

Comparative figures for the prior year have been reclassified, refer to Note 29.

14. LOANS AND ADVANCES

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Carrying amount	624,568	23,857
Interest Receivable	6,191	140
Gross Carrying Amount	630,759	23,997
Less: ECL allowance	(2,655)	-
Net carrying amount	628,104	23,997

Comparative figures for the prior year have been reclassified, refer to Note 29.

15. PAID-IN CAPITAL RECEIVABLES

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Balance at the beginning of year of the Agreement (Note 1 below)	6,200,000	7,800,000
Less:		
Instalments received during the year (Note 2 below)	(1,190,788)	(1,600,000)
Total nominal amounts of receivable at the end of the year (Note 4 below)	5,009,212	6,200,000
Less:		
Interest on paid-in capital receivables to be unwound in the future year (Note 3 below)	(162,429)	(266,646)
Balance at the end of the year	4,846,783	5,933,354

Note 1: As disclosed in Note 22, the Bank established the rights to receive the initial subscribed paid-in capital of 100,000 shares, which totalled 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 the paid-in capital. The payment of the amount initially subscribed to, for the paid-in capital stock of the Bank, is made in 7 instalments. The first instalment of paid-in capital was paid by each member within 6 months of the Agreement coming in force, and the second instalment was due 18 months from the date that the Agreement came into force. The remaining instalments are due successively, one year from the date on which the preceding instalment becomes due.

Note 2: The instalments received in the year ended December 31, 2018 resulted from the partial receipt of the fourth instalments and the partial receipt of the fifth instalments, ahead of schedule. The instalment received in in the year ended December 31, 2017 resulted from the receipt of the third instalment and the partial receipt of the fourth instalment 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 444,286 thousand of accumulated unwinding interest already unwound on the paid-in capital receivables (December 31, 2017: USD 350,464 thousand) and USD 15,570 thousand as a result of accumulated early payment and the impact on discounting which was credited to reserve as an equity transaction by the end of December 31, 2018 (December 31, 2017: USD 5,175 thousand).

Note 4: On December 31, 2018, there were no overdue instalments of paid-in capital receivables. The total paid-in capital receivables that will become due within one-year amount to an undiscounted value of USD 0.3 billion, and that will become due over one-year amount to an undiscounted value of USD 4.7 billion (December 31, 2017: USD 6.2 billion).

16. 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, 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

	IT Equipment USD'000	Appliance USD'000	Vehicle USD'000	Furniture USD'000	Others USD'000	Total USD'000
Cost as at January 1, 2017	65	30	360	2	25	482
Additions during the year	126	32	53	-	-	211
Cost at December 31, 2017	191	62	413	2	25	693
Accumulated depreciation as at January 1, 2017	(3)	(3)	-	(0)	-	(6)
Depreciation for the year	(15)	(8)	(65)	(0)	(5)	(93)
Accumulated depreciation as at December 31, 2017	(18)	(11)	(65)	(0)	(5)	(99)
Net book value as at December 31, 2017	173	51	348	2	20	594

17. INTANGIBLE ASSETS

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Cost		
As at the beginning of the year	65	40
Additions for the year	944	25
Cost as at the end of the year	1,009	65
Accumulated amortisation		
As at the beginning of the year	(11)	(2)
Amortisation for the year	(67)	(9)
As at the end of the year	(78)	(11)
Net book value		
As at the end of the year	931	54

18. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The Bank entered into derivative contracts for the bond issued, that was paired with swaps with a total notional amount of RMB 3 billion, to convert the issuance proceeds into the currency and interest rate structure sought by the Bank. Notwithstanding the purpose of achieving an economic hedge, the Bank opted not to apply hedge accounting for any derivative contracts entered into in the financial year ended December 31, 2018 and December 31, 2017.

As at December 31, 2018	Notional USD	Fair Value Asset	Fair Value Liability
	USD'000	USD'000	USD'000
Interest Rate Swap	90,132	710	-
Cross Currency Swap	359,396	-	6,374
Total	449,528	710	6,374

As at December 31, 2017	Notional USD	Fair Value Asset	Fair Value Liability
	USD'000	USD'000	USD'000
Interest Rate Swap	90,132	-	4,047
Cross Currency Swap	359,396	-	(716)
Total	449,528	-	3,331

19. OTHER ASSETS

	As at December 31, 2018	As at December 31, 2017
	USD'000	USD'000
Other receivables	220	196
Others	913	446
Total	1,133	642

Comparative figures for the prior year have been reclassified, refer to Note 29.

20. FINANCIAL LIABILITIES DESIGNATED AT FVTPL

	As at December 31, 2018	As at December 31, 2017
	USD'000	USD'000
Bond - Principal	448,011	448,011
- Interest payable	6,086	6,399
- Fair value change	(10,288)	(5,043)
Total	443,809	449,367

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

20. FINANCIAL LIABILITIES DESIGNATED AT FVTPL - continued

There has been no change in fair value of bonds attributable to changes in the Bank's credit risk for the year ended December 31, 2018 and 2017. The contractual principal amount to be paid at maturity of the bond, in the original currency, is RMB 3 billion.

21. OTHER LIABILITIES

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Employee benefits payable	308	328
Accrued expenses	1,275	885
Impairment provision of loan commitment	1,126	23
Deferred income (Note 1 below)	3,866	1,055
Annual Leave provision	792	520
Total	7,367	2,811

Note 1: The deferred income disclosed above relates to contract liabilities, which is the unsatisfied performance obligations of front-end fees as at December 31, 2018 and December 31, 2017.

22. 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 at December 31, 2018. 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, 2018		As at December 31, 2017	
	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

22. PAID-IN CAPITAL - continued

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, 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
Capital subscribed by members	500,000	50,000,000	40,000,000	10,000,000	4,990,788	5,009,212

As at December 31, 2017	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	700,000	1,300,000
Russia	100,000	10,000,000	8,000,000	2,000,000	1,000,000	1,000,000
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	700,000	1,300,000
South Africa	100,000	10,000,000	8,000,000	2,000,000	700,000	1,300,000
Capital subscribed by members	500,000	50,000,000	40,000,000	10,000,000	3,800,000	6,200,000

[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, 2018 all paid-in capital from founding members was received in accordance with the Agreement, and partial receipts relating to the fourth and fifth instalment have been received ahead of schedule.

23. OTHER RESERVES

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Accumulated impact on discounting of paid-in capital receivables	(162,429)	(266,646)
Total	(162,429)	(266,646)

Other reserve mainly represents 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 which is recycled to other reserves, from retained earnings immediately occurs following the unwinding treatment in the relevant accounting period.

24. RECONCILIATION OF ASSETS AND LIABILITIES ARISING 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. 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.

			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, 20182018 USD'000	Cash inflows USD'000	Interest accrued movements USD'000	Fair value changes USD'000	Cash outflows[1] USD'000	As at December 31, 20182018 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

			Non-cash movements		
	As at January 1, 2017 USD'000	Cash inflows USD'000	Unwinding of interest USD'000	Impact of early payment USD'000	As at December 31, 2017 USD'000
Paid-in capital receivables	7,401,019	(1,600,000)	127,160	5,175	5,933,354
Total assets from Financing activities	7,401,019	(1,600,000)	127,160	5,175	5,933,354

24. RECONCILIATION OF ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES - continued

	As at January 1, 2017	Cash outflows[2]	Non-cash movements: Interest accrued movements	Non-cash movements: Fair value changes	As at December 31, 2017
	USD'000	USD'000	USD'000	USD'000	USD'000
Bond	403,064	(13,600)	14,020	45,883	449,367
Total liabilities from Financing activities	403,064	(13,600)	14,020	45,883	449,367

[1]The cash outflows of 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.

[2]The cash outflows of USD 13.6 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.

25. COMMITMENTS

1) Operating leases commitments

On December 31, 2018, the Bank had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at December 31, 2018	As at December 31, 2017
	USD'000	USD'000
Not later than one year	99	100
Later than one year and not later than five years	153	-
Total	252	100

2) Capital commitments

As at December 31, 2018, the Bank had no irrevocable capital expenditure commitments.

3) Credit Commitments

	As at December 31, 2018	As at December 31, 2017
	USD'000	USD'000
Undrawn loan commitments		
Letters of effectiveness signed	2,342,991	1,321,545
Letter of effectiveness yet to be signed	1,590,000	300,000
Total	3,932,991	1,621,545

Credit commitments represent general facility limits granted to borrowers. These credit facilities may be drawn in the form of loans and advances once the letters of effectiveness are signed.

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

The name and relationship with founding member governments are disclosed below:

(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 from China, for free, for the year ended December 31, 2018 and for the year ended December 31, 2017.

Please refer to Note 15 for the paid-in capital receivables as at December 31, 2018 and December 31, 2017.

(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, 2018:

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

26. RELATED PARTY DISCLOSURE - continued

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

	For the year ended December 31, 2018 USD'000	For the year ended December 31, 2017 USD'000
Salary and allowance	2,427	2,352
Staff Retirement Plan	354	343
Post-Retirement Insurance Plan	61	59
Other short term benefits	95	65
Total	2,937	2,819

(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.

27. SEGMENT INFORMATION

For the year ended December 31, 2018, the Bank has a single reportable segment and evaluates the financial performance of the Bank as a whole.

28. UNCONSOLIDATED STRUCTURED ENTITY

The Board of Governors approved the establishment of the NDB Project Preparation Fund (PPF) on January 20, 2017. The 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 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 PPF to fulfill its purpose. The 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 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 PPF shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separate from each other. The PPF will be open to contributions from all its member countries. Non-member countries and international organisations/funds may also contribute to the PPF with the Board of Director's approval authorised by the Board of Governors.

As at December 31, 2018, the PPF had received contributions amounting to USD 6.5 million (December 31, 2017: USD 4.5 million). The Bank has not earned any income from PPF for the year ended December 31, 2018.

29. RECLASSIFICATION OF COMPARATIVE FIGURES

As at December 31, 2017, USD 33.2 million accrued interest on deposits due from bank and USD 140,000 accrued interest on loans and advances were included in Other assets. The Bank reclassified the accrued interest included in Other assets, to Due from banks other than cash and cash equivalents and Loans and advances. As a result, the comparative figures of these line items have been amended in the Statement of Financial Position as at December 31, 2018 and the Statement of Cash Flows for the year ended December 31, 2018.

For the year ended December 31, 2018, the Bank has presented interest expense and interest paid separately in the net cash used in operating activities in the Statement of Cash Flows. As a result, the comparative figures of these line items have also been amended in the Statement of Cash Flows for the year ended December 31, 2018.

These reclassifications do not have a material effect on the information in the Bank's Statement of Financial Position and Statement of Cash Flows.

The items were reclassified as follows:

Statement of Financial Position

	Previously reported As at December 31, 2017 USD'000	**After reclassification** As at December 31, 2017 USD'000
Due from banks other than cash and cash equivalents	3,212,404	3,245,623
Loans and advances	23,857	23,997
Other assets	34,001	642
	3,270,262	3,270,262

Statement of Cash Flows

	Previously Reported Year ended December 31, 2017 USD'000	**After reclassification** Year ended December 31, 2017 USD'000
Interest expense	420	14,020
Operating cash flows before changes in operating assets and liabilities	36,642	50,242
Net increase in due from banks other than cash and cash equivalents	(927,510)	(941,526)
Net increase in loans and advances	(22,789)	(22,929)
Net increase in other assets	(14,554)	(398)
Interest paid	-	(13,600)

30. SUBSEQUENT EVENTS

On January 3, 2019, USD 300 million of paid-in capital relating to the 4th instalment was received from India.

On October 5, 2018, a loan agreement for USD 350 million was signed with India to finance the Madhya Pradesh Major District Roads II Project. This agreement became effective on January 17, 2019.

On October 5, 2018, a loan agreement for USD 175 million was signed with India to finance the Madhya Pradesh Bridges Project. This agreement became effective on January 17, 2019.

On January 21, 2019, a loan agreement for USD 300 million was signed with SIBUR Holding to finance general purpose infrastructure at the integrated petrochemical complex in Western-Siberian. This agreement became effective on January 21, 2019.

On November 20, 2018, a loan agreement for USD 350 million was signed with India to finance the Bihar Rural Roads Project. This agreement became effective on January 22, 2019.

On February 20, 2019, USD 9 million of paid-in capital was received from South Africa relating to the 4th instalment.

On August 20, 2018, a loan agreement for USD 470 million was signed with India to finance the Madhya Pradesh Multi Village Rural Water Supply Project. This agreement became effective on February 21, 2019.

On February 22, 2019, the Bank issued a RMB 3 billion bond consisting of two tranches:

- RMB 2 billion for a 3-year tenor with an annual fixed coupon rate of 3.0%; and
- RMB 1 billion for a 5-year tenor with an annual fixed coupon rate of 3.3%.

On March 15, 2019, a loan agreement for USD 300 million was signed with Development Bank of Southern Africa Limited to finance greenhouse gas emissions reduction and the energy sector development project. This agreement became effective on March 15, 2019.

31. APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements were approved by the Board of Governors and authorised for issuance on April 1, 2019.

* * * End of the Annual Financial Statements * * *