

THE NEW DEVELOPMENT BANK

Independent Auditor's Report and
Financial Statements
For the year ended 31 December 2019
(Prepared in accordance with International Financial
Reporting Standards)

THE NEW DEVELOPMENT BANK

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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DTT(A)(20)I00061

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF GOVERNORS OF THE NEW DEVELOPMENT BANK

Opinion

We have audited the financial statements of the New Development Bank (the "Bank"), which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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INDEPENDENT AUDITOR'S REPORT - CONTINUED**Responsibilities of Management and the Board of Governors for the Financial Statements**

Management of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

April 20, 2020

THE NEW DEVELOPMENT BANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

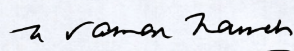
	<u>Notes</u>	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Interest income	7	230,555	123,400
Interest expense	7	<u>(32,812)</u>	<u>(13,597)</u>
Net interest income	7	<u>197,743</u>	<u>109,803</u>
Net fee income	8	1,567	418
Net gains on financial instruments at fair value through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

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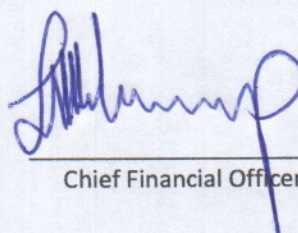
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

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

The annual financial statements on pages 4 to 58 were approved and authorised for issue by the Board of Governors on April 20, 2020 and signed on their behalf by:



President



Chief Financial Officer

THE NEW DEVELOPMENT BANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

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

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

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
OPERATING ACTIVITIES		
Profit for the year	222,905	165,859
Adjustments for		
Interest expense	32,812	13,597
Interest income from debt instruments at amortised cost	(757)	-
Depreciation and amortisation	589	229
Unrealised gains on financial instruments	(19,232)	(2,912)
Unwinding of interest on paid-in capital receivables	(72,428)	(93,822)
Impairment provisions for loans and commitments	2,073	3,758
Exchange losses on debt instruments at amortised cost	789	-
Exchange losses on lease liabilities	8	-
Debt issuance cost	552	-
Operating cash flows before changes in operating assets and liabilities	<u>167,311</u>	<u>86,709</u>
Net increase in due from banks	(694,193)	(1,554,936)
Net increase in loans and advances	(912,998)	(604,228)
Net increase in other assets	(487)	(491)
Net increase in other liabilities and contract liabilities	7,598	919
Interest paid on bonds and borrowings	(13,414)	(13,910)
Interest paid on note payables	(3,405)	-
Interest paid on lease liabilities	(4)	-
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,449,592)</u>	<u>(2,085,937)</u>
INVESTING ACTIVITIES		
Proceeds from redemption of debt instruments at amortised cost	40,810	-
Purchase of debt instruments at amortised cost	(74,613)	-
Purchase of property and equipment and intangible assets	(1,257)	(1,717)
NET CASH USED IN INVESTING ACTIVITIES	<u>(35,060)</u>	<u>(1,717)</u>
FINANCING ACTIVITIES		
Paid-in capital received	1,209,212	1,190,788
Proceeds from issuance of short-term borrowings	110,000	13,000
Proceeds from issuance of bonds	448,012	-
Proceeds from issuance of note payables	1,085,296	-
Repayment of short-term borrowings	-	(13,000)
Repayment from note payables	(466,595)	-
Payment of bond issuance cost	(552)	-
Payment of issuance cost on note payables	(131)	-
Payment of lease liabilities	(83)	-
NET CASH FROM FINANCING ACTIVITIES	<u>2,385,159</u>	<u>1,190,788</u>

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STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>900,507</u>	<u>(896,866)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>122,988</u>	<u>1,019,854</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>1,023,495</u>	<u>122,988</u>

1. GENERAL INFORMATION

The New Development Bank (the "Bank") was established on the signing of the Agreement on the New Development Bank (the "Agreement") on July 15, 2014 by the Government of the Federative Republic of Brazil ("Brazil"), the Russian Federation ("Russia"), the Republic of India ("India"), the People's Republic of China ("China") and the Republic of South Africa ("South Africa"), collectively the "BRICS" countries or founding members. The Agreement took effect on July 3, 2015 according to the notification endorsed by Brazil in its capacity as depositary. The headquarters of the Bank is located in Shanghai, China. On August 17, 2017, the Bank officially opened the Africa Regional Center ("ARC"), in Johannesburg, and will open other regional centres in BRICS countries.

According to the Agreement, the initial authorised capital of the Bank is United States Dollar ("USD") 100 billion and the initial subscribed capital of the Bank is USD 50 billion. Each founding member shall initially subscribe for 100,000 shares, totaling USD 10 billion, of which 20,000 shares correspond to paid-in capital and 80,000 shares correspond to callable shares. The contribution of the amount initially subscribed by each founding member, to the paid-in capital stock of the Bank, shall be made in USD in 7 instalments, pursuant to the Agreement.

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

As at December 31, 2019, the Bank had 149 (December 31, 2018: 128) employees including the President and 4 (December 31, 2018: 4) Vice-Presidents. In addition, there were 12 (December 31, 2018: 16) consultants/secondees appointed by the Bank on a short-term basis.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

IFRS 16 Leases

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

Definition of a lease

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

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

As a lessee

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

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

When applying the modified retrospective approach under IFRS 16 at transition, the Bank applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

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

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

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

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2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

IFRS 16 Leases - continued

As a lessee - continued

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

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

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

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

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

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

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

IFRS 16 Leases - continued

As a lessee - continued

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

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

¹ Effective for annual periods beginning on or after January 1, 2021.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after January 1, 2020.

⁵ Effective for annual periods beginning on or after January 1, 2022.

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

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

Amendments to IAS 1 and IAS 8 Definition of Material

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Basis of preparation

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability, if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with IFRS 16 (since January 1, 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 Impairment of Assets.

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

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

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

Revenue

The Bank recognises revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Revenue - continued

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

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

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

Output method

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

Interest income

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

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Revenue - continued

Front-end fee

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

Commitment fee

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

Borrowing costs

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

Property and equipment

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

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

Subsequent expenditure incurred on property and equipment is included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Bank and the subsequent expenditure can be measured reliably. Costs relating to repairs and maintenance are recognised in profit or loss, in the period in which they incurred.

Depreciation is recognised so as to write-off the cost of items of property and equipment over their estimated useful lives, after taking into account their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

<u>Classes</u>	<u>Estimated residual value rates</u>	<u>Useful lives</u>
IT equipment	0%	5 years
Appliance	0%	5 years
Furniture	0%	5 years
Vehicle	20%	4-7 years
Others	0%	5 years

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

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
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Leases

Definition of a lease

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

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

As a lessee

Allocation of consideration to components of a contract

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

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

Short-term leases and leases of low-value assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Leases - continued

As a lessee - continued

Right-of-use assets

The cost of right-of-use asset includes:

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

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

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

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

Lease liabilities

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

The lease payments include:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Leases - continued

As a lessee - continued

Lease modifications

The Bank accounts for a lease modification as a separate lease if:

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

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

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

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

At the end of the reporting period, the Bank reviews the carrying amounts of its property and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable amount of property and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

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

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

Financial instruments

Initial recognition and measurement

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

Financial assets and financial liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Classification of financial instruments - continued

Financial assets - continued

Financial assets at FVTPL

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

Financial assets measured at amortised cost

The Bank classifies an asset at amortised cost when the following conditions have been met:

- The financial asset is held within a business model whose objective is to hold the financial asset to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

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

Financial assets measured at FVTOCI

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Classification of financial instruments - continued

Financial assets - continued

Financial assets measured at FVTOCI - continued

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

Financial liabilities and equity

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

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

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

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

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

A financial liability is held for trading if:

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Classification of financial instruments - continued

Financial liabilities and equity - continued

A financial liability may be designated at FVTPL if:

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

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

The Bank applies the fair value measurement option to the bonds issued in 2016 and 2019 respectively to reduce the accounting mismatch resulting from the economically related interest rate swap and cross currency swap with the same notional amount in total.

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

Derivative financial instruments

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Impairment - continued

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

(i) *Stage 1: 12-month ECL*

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

(ii) *Stage 2: Lifetime ECL – not credit-impaired*

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

(iii) *Stage 3: Lifetime ECL – credit-impaired*

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

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

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

Write-off policy

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

Measurement of ECL

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Measurement of ECL - continued

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

Offsetting

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

Employee benefits

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

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

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

Paid-in capital

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

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

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.

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.

Valuation of derivative contracts and bonds designated at FVTPL

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

The Bank's analysis and method for determining the fair value of financial liabilities designated at fair value have been provided in Note 6.

Discounting of paid-in capital receivables

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

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

Measurement of the ECL allowance

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

The following significant judgements are required in applying the accounting requirements for measuring the ECL:

- Determining criteria for significant increase in credit risk;
- Choosing an appropriate model and determining appropriate assumptions for the measurement of ECL; and
- Establishing the number and probability of forward-looking scenarios for each type of product.

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

5. FINANCIAL RISK MANAGEMENT

Overview

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

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

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

5. FINANCIAL RISK MANAGEMENT - continued

Overview - continued

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

Credit risk

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

According to the nature of the Bank's business, the principal sources of credit risks are:

- (i) credit risk in its sovereign operations;
- (ii) credit risk in its non-sovereign operations; and
- (iii) obligors credit risk in its treasury business.

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

The Bank mainly relies on external credit rating results from major international rating agencies (e.g. Moody's, Standard and Poor's and Fitch) to provide an initial assessment of the credit quality of sovereign and non-sovereign borrowers and treasury counterparties. In case where the loans are guaranteed by the governments of the individual countries, the credit risk is assessed on the guarantor. The Risk Division of the Bank continuously monitors the overall credit risk of the Bank.

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

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

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

ECL measurement

The Bank applies a three-stage model for impairment based on changes in credit quality since initial recognition. The ECL calculation tool designed by Moody's is used for the year ended December 2019 and 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. The Bank has applied the new quantitative criteria for the year ended December 31, 2019 after revisiting the way significant increase in credit risk is assessed for the Bank's portfolio. The qualitative criteria are not changed.

Quantitative criteria include:

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

Qualitative criteria include:

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

Credit-impaired financial assets

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

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

12-month ECL measurement

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

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

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

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

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

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

Forward-looking information incorporated in ECL

Macro scenario development

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

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

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

Sensitivity Analysis

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

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5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Definition of default

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

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

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

Credit exposure on loan facilities

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

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

<u>As at December 31, 2018</u>	Maximum <u>facility</u> USD'000	Effective <u>facility</u> USD'000	<u>Utilised</u> USD'000	Unutilised loan <u>commitments</u> 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	<u>500,000</u>	<u>500,000</u>	<u>340,000</u>	<u>160,000</u>
Total	<u>4,557,559</u>	<u>2,967,559</u>	<u>624,568</u>	<u>2,342,991</u>
Interest Receivable			6,191	-
Less: Provision for loan and commitment			<u>(2,655)</u>	<u>(1,126)</u>
Carrying amount as at December 31, 2018			<u>628,104</u>	<u>2,341,865</u>

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, 2018. There was no significant increase in credit risk up to December 31, 2018 and all the loans were at stage 1.

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5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit exposure on loan facilities - continued

Reconciliation of provision for loans raised

Stage 1
USD'000

ECL allowance of loans as at January 1, 2019	2,655
Additions	1,127
Derecognition	(29)
Change in risk parameters	782
ECL allowance of loans as at December 31, 2019	<u>4,535</u>

Stage 1
USD'000

ECL allowance of loans as at January 1, 2018	-
Additions	2,655
Change in risk parameters	-
ECL allowance of loans as at December 31, 2018	<u>2,655</u>

Reconciliation of provision for loan commitments

Stage 1
USD'000

ECL allowance of loan commitments as at January 1, 2019	1,126
Additions	1,254
Reversal	(1,066)
Change in risk parameters	5
ECL allowance of loan commitments as at December 31, 2019	<u>1,319</u>

Stage 1
USD'000

ECL allowance of loan commitments as at January 1, 2018	-
Additions	1,126
Change in risk parameters	-
ECL allowance of loan commitments as at December 31, 2018	<u>1,126</u>

THE NEW DEVELOPMENT BANK

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Concentration risk

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

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

<u>As at December 31, 2018</u>	<u>Effective facility</u> USD'000	<u>Utilised</u> USD'000	<u>Unutilised loan commitments</u> 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	<u>2,967,559</u>	<u>624,568</u>	<u>2,342,991</u>
Interest Receivable		6,191	-
Less: Provision for loans and commitments		(2,655)	(1,126)
Carrying amount as at December 31, 2018		<u>628,104</u>	<u>2,341,865</u>

Credit exposure on deposits

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

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

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5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit exposure on deposits - continued

Credit exposure on the investment in debt instruments

	As at December <u>31, 2019</u> USD'000	As at December <u>31, 2018</u> USD'000
Senior investment grade	<u>33,771</u>	<u>-</u>
Total	<u>33,771</u>	<u>-</u>

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

Credit risk on paid-in capital receivables

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

Credit risk on derivatives

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

Risk concentrations

The Bank manages concentration risk through the limits on the basis of the individual counterparties and geographical region in accordance with the Board approved policy. The Bank will diversify its credit exposures over time.

Liquidity risk

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

- (i) Insufficient liquidity to settle obligations or to meet cash flow needs including, but not limited to, the inability to maintain normal lending operations and to support public or private projects in a timely manner.
- (ii) Inability to liquidate an investment at a reasonable price within the required period of time.

5. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

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

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

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5. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

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

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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							
<i>Net setting derivatives</i>							
Interest rate swap - cash inflow	-	-	-	2,001	4,007	-	6,008
Interest rate swap - cash outflow	-	(598)	-	(1,433)	(3,172)	-	(5,203)
<i>Gross setting derivatives</i>							
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

Market risk

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

Interest rate risk

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

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

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

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

Interest rate sensitivity analysis

The objective of Net Interest Income ("NII") sensitivity analysis is to utilise projected earnings simulations to forecast, and to measure and manage interest rate risk. NII analysis measures the sensitivity of net interest income earnings to changes in interest rates.

The sensitivity analysis is prepared assuming the interest bearing financial assets and liabilities outstanding at the end of each respective reporting periods were outstanding for the whole year.

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5. FINANCIAL RISK MANAGEMENT - continued

Interest rate risk - continued

Interest rate sensitivity analysis - continued

When reporting to the management on the interest rate risk, a 25 basis points increase or decrease in the relevant interest rates is adopted for sensitivity analysis, when considering the reasonably possible change in interest rates. The impact of a change in interest rates on the last date of the reporting period is shown below.

	Impact on profit	
	Year ended <u>December 31, 2019</u> USD'000	Year ended <u>December 31, 2018</u> USD'000
+ 25 basis points	10,580	7,959
- 25 basis points	(10,580)	(7,959)

Exchange rate risk

The exchange rate risk the Bank faces arises from the impact of exchange rate movements on net open positions in loans and treasury portfolio. Movements in currencies in which the Bank transacts, relatively to its functional currency (the U.S. dollar), can affect the Bank's results. The Bank's main exposure to the exchange rate risk is Renminbi ("RMB") for the year ended December 31, 2019 and 2018.

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

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

Exchange rate sensitivity analysis

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

	Impact on Profit	
	Year ended <u>December 31, 2019</u> USD'000	Year ended <u>December 31, 2018</u> USD'000
10% appreciation	248	(35)
10% depreciation	(248)	35

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5. FINANCIAL RISK MANAGEMENT - continued

Capital management

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

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

As at December 31, 2019, the Bank had complied with its capital adequacy management policies.

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

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

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Bank's financial instruments that are measured subsequent to initial recognition at fair value, mainly included financial liabilities designated at fair value through profit and loss and the derivatives as at December 31, 2019.

The Risk Division of the Bank is responsible for the fair value measurement. Analysis of fair value disclosures uses a hierarchy that reflects the significant inputs used in measuring the fair value. For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. The fair value hierarchy is as below.

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

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

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6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES - continued

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

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

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

- The fair values of derivative assets and liabilities, including foreign exchange forwards, interest rate swaps and cross currency swaps are obtained from discounted cash flow models and other valuation techniques that are commonly used by market participants using observable inputs as appropriate in the market and published by reputable agencies like Bloomberg.
- The fair value of the financial liabilities designated at fair value through profit and loss is measured using market accepted valuation techniques. The techniques serve the purpose of tracking the value impact in respect of both interest rate and foreign exchange rate movement.

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

	<u>Level 1</u> USD'000	<u>Level 2</u> USD'000	<u>Level 3</u> USD'000	<u>Total</u> USD'000
As at December 31, 2019				
Financial assets	-	-	-	-
Derivatives	-	5,436	-	5,436
Total financial assets measured at fair value	-	5,436	-	5,436
Financial liabilities				
Derivatives	-	12,182	-	12,182
Financial liabilities designated at fair value	-	882,757	-	882,757
Total financial liabilities measured at fair value	-	894,939	-	894,939
As at December 31, 2018				
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

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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

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

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

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

7. NET INTEREST INCOME

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

8. NET FEE INCOME

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

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

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

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

10. STAFF COSTS

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

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

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

The Bank did not incur any salary expenses and other employee benefits for members of the Board of Governors and the Board of Directors except for the President of the Bank for the year ended December 31, 2019 and 2018. According to Article 11 of the Agreement, the Board of Governors shall determine the salary and terms of the service contract of the President of the Bank.

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11. OTHER OPERATING EXPENSES

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

12. CASH AND CASH EQUIVALENTS

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

13. DUE FROM BANKS OTHER THAN CASH AND CASH EQUIVALENTS

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

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14. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

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

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

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

<u>As at December 31, 2019</u>	<u>Notional USD</u> USD'000	Fair Value <u>Assets</u> USD'000	Fair Value <u>Liabilities</u> USD'000
Interest Rate Swap	732,590	5,436	177
Cross Currency Swap	359,396	-	10,480
Forward Contract	270,881	-	1,525
Total	<u>1,362,867</u>	<u>5,436</u>	<u>12,182</u>

<u>As at December 31, 2018</u>	<u>Notional USD</u> USD'000	Fair Value <u>Assets</u> USD'000	Fair Value <u>Liabilities</u> USD'000
Interest Rate Swap	90,132	710	-
Cross Currency Swap	359,396	-	6,374
Total	<u>449,528</u>	<u>710</u>	<u>6,374</u>

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15. DEBT INSTRUMENTS MEASURED AT AMORTISED COST

	As at December <u>31, 2019</u> USD'000	As at December <u>31, 2018</u> USD'000
Policy bank bonds	26,555	-
Commercial bank bond	7,216	-
Total	<u>33,771</u>	<u>-</u>

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

16. LOANS AND ADVANCES

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

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

17. PAID-IN CAPITAL RECEIVABLES

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

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17. PAID-IN CAPITAL RECEIVABLES - continued

Note 1: As disclosed in Note 28, the Bank established the rights to receive the initial subscribed paid-in capital of 100,000 shares, which total USD 10 billion upon the effective date of the Agreement. Each founding member shall initially and equally subscribe to 20,000 shares that correspond to paid-in capital. The payment of the amount initially subscribed to the paid-in capital stock of the Bank shall be made in 7 instalments. The first instalment of paid-in capital shall be paid by each member within 6 months of the Agreement coming in force and the second instalment shall become due 18 months from the date the Agreement came into force. The remaining 5 instalments shall each become due successively one year from the date on which the preceding instalment becomes due.

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

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

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

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18. RIGHT-OF-USE ASSETS

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

19. PROPERTY AND EQUIPMENT

	<u>IT Equipment</u> USD'000	<u>Appliance</u> USD'000	<u>Vehicle</u> USD'000	<u>Furniture</u> USD'000	<u>Others</u> USD'000	<u>Total</u> USD'000
Cost as at January 1, 2019	953	66	413	9	25	1,466
Additions during the year	540	-	-	-	-	540
Disposal for the year	(1)	-	-	-	-	(1)
Cost at December 31, 2019	<u>1,492</u>	<u>66</u>	<u>413</u>	<u>9</u>	<u>25</u>	<u>2,005</u>
Accumulated depreciation as at January 1, 2019	(95)	(24)	(131)	(1)	(10)	(261)
Depreciation for the year	(203)	(13)	(66)	(2)	(5)	(289)
Disposals/written-off	-	-	-	-	-	-
Accumulated depreciation as at December 31, 2019	<u>(298)</u>	<u>(37)</u>	<u>(197)</u>	<u>(3)</u>	<u>(15)</u>	<u>(550)</u>
Net book value as at December 31, 2019	<u>1,194</u>	<u>29</u>	<u>216</u>	<u>6</u>	<u>10</u>	<u>1,455</u>
	<u>IT Equipment</u> USD'000	<u>Appliance</u> USD'000	<u>Vehicle</u> USD'000	<u>Furniture</u> USD'000	<u>Others</u> USD'000	<u>Total</u> 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	<u>953</u>	<u>66</u>	<u>413</u>	<u>9</u>	<u>25</u>	<u>1,466</u>
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	<u>(95)</u>	<u>(24)</u>	<u>(131)</u>	<u>(1)</u>	<u>(10)</u>	<u>(261)</u>
Net book value as at December 31, 2018	<u>858</u>	<u>42</u>	<u>282</u>	<u>8</u>	<u>15</u>	<u>1,205</u>

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20. INTANGIBLE ASSETS

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

21. OTHER ASSETS

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

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

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

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

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

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

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23. BORROWINGS

	As at December <u>31, 2019</u> USD'000	As at December <u>31, 2018</u> USD'000
Unsecured short-term borrowings	110,053	-
Total	<u>110,053</u>	<u>-</u>

Short-term bank borrowings are repayable within one year.

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

24. NOTE PAYABLES

	As at December <u>31, 2019</u> USD'000	As at December <u>31, 2018</u> USD'000
Note payables	623,256	-
Total	<u>623,256</u>	<u>-</u>

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

25. LEASE LIABILITIES

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

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26. CONTRACT LIABILITIES

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

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

27. OTHER LIABILITIES

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

28. PAID-IN CAPITAL

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

	<u>As at December 31, 2019</u>		<u>As at December 31, 2018</u>	
	<u>Number of shares</u>	<u>Amount in USD'000</u>	<u>Number of shares</u>	<u>Amount in USD'000</u>
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	<u>100,000</u>	<u>10,000,000</u>	<u>100,000</u>	<u>10,000,000</u>

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28. 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:

<u>As at December 31, 2019</u>	<u>Total shares</u> Numbers	<u>Total capital</u> USD'000	<u>Callable capital</u> USD'000	<u>Paid-in capital</u> USD'000	<u>Paid-in capital¹</u> received USD'000	<u>Paid-in capital</u> <u>outstanding</u> USD'000
Brazil	100,000	10,000,000	8,000,000	2,000,000	1,300,000	700,000
Russia	100,000	10,000,000	8,000,000	2,000,000	1,300,000	700,000
India	100,000	10,000,000	8,000,000	2,000,000	1,000,000	1,000,000
China	100,000	10,000,000	8,000,000	2,000,000	1,300,000	700,000
South Africa	100,000	10,000,000	8,000,000	2,000,000	1,300,000	700,000
Total	500,000	50,000,000	40,000,000	10,000,000	6,200,000	3,800,000

<u>As at December 31, 2018</u>	<u>Total shares</u> Numbers	<u>Total capital</u> USD'000	<u>Callable capital</u> USD'000	<u>Paid-in capital</u> USD'000	<u>Paid-in capital¹</u> received USD'000	<u>Paid-in capital</u> <u>outstanding</u> USD'000
Brazil	100,000	10,000,000	8,000,000	2,000,000	1,000,000	1,000,000
Russia	100,000	10,000,000	8,000,000	2,000,000	1,300,000	700,000
India	100,000	10,000,000	8,000,000	2,000,000	700,000	1,300,000
China	100,000	10,000,000	8,000,000	2,000,000	1,000,000	1,000,000
South Africa	100,000	10,000,000	8,000,000	2,000,000	990,788	1,009,212
Total	500,000	50,000,000	40,000,000	10,000,000	4,990,788	5,009,212

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

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

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29. OTHER RESERVES

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

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

30. RECONCILIATION OF ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

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

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

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

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

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

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

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

	As at January <u>1, 2018</u> USD'000	Cash inflows USD'000	Non-cash movements			As at December <u>31, 2018</u> USD'000
			Interest accrued movements USD'000	Fair value changes USD'000	Operating cash outflows ² 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	<u>449,367</u>	<u>13,000</u>	<u>13,597</u>	<u>(5,245)</u>	<u>(26,910)</u>	<u>443,809</u>

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

31. COMMITMENTS

1) Capital commitments

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

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31. COMMITMENTS - continued

2) Credit Commitments

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

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

32. RELATED PARTY DISCLOSURE

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

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

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

(1) Name and relationship

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

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

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

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32. RELATED PARTY DISCLOSURE - continued

(2) Details of Key Management Personnel ("KMP") of the Bank:

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

The following persons were KMP of the Bank during the year ended December 31, 2019:

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

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

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

(4) Use of office building and other facilities

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

33. SEGMENT INFORMATION

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

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34. UNCONSOLIDATED STRUCTURED ENTITY

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

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

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

35. SUBSEQUENT EVENTS

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

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

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

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

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

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

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

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35. SUBSEQUENT EVENTS - continued

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

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

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

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

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

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

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

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

36. APPROVAL OF ANNUAL FINANCIAL STATEMENTS

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

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