

**THE NEW DEVELOPMENT BANK**  
**PROJECT PREPARATION FUND**

**Independent Auditor's Report and  
Financial Statements  
For the year ended December 31, 2020  
(Prepared in accordance with International  
Financial Reporting Standards)**

THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020

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DTT(A)(21)I00015

## INDEPENDENT AUDITOR'S REPORT

### TO THE BOARD OF GOVERNORS OF THE NEW DEVELOPMENT BANK (THE "BANK")

#### **Opinion**

We have audited the financial statements of the New Development Bank Project Preparation Fund (the "NDB-PPF"), which comprise the statement of financial position as at December 31, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the NDB-PPF as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

#### **Basis for Opinion**

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

#### **Responsibilities of Management and the Board of Governors of the Bank for the Financial Statements**

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

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

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

INDEPENDENT AUDITOR'S REPORT - continued**Auditor's Responsibility for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NDB-PPF's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the Bank.
- Conclude on the appropriateness of the management of the Bank's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NDB-PPF's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the NDB-PPF to cease to continue as a going concern.

THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2020  
EXPRESSED IN THOUSANDS OF USD

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	<u>Notes</u>	Year ended December <u>31, 2020</u>	Year ended December <u>31, 2019</u>
Interest income	6	98	192
Operating expenses	7	<u>(50)</u>	<u>(46)</u>
Profit for the year		<u>48</u>	<u>146</u>
Total comprehensive income for the year		<u>48</u>	<u>146</u>

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INDEPENDENT AUDITOR'S REPORT - continued

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Governors of the Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte Touche Tohmatsu CPA LLP*

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


March 30, 2021

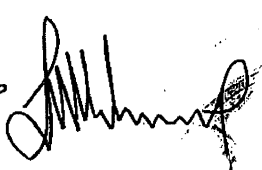
**THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND**

**STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2020  
EXPRESSED IN THOUSANDS OF USD**

	<u>Notes</u>	As at December 31, <u>2020</u>	As at December 31, <u>2019</u>
<b>Assets</b>			
Cash and cash equivalents	8	7,322	3,262
Due from banks other than cash and cash equivalents	9	-	4,000
Other assets		4	1
<b>Total assets</b>		<u>7,326</u>	<u>7,263</u>
<b>Liabilities</b>			
Other liabilities		43	28
<b>Total liabilities</b>		<u>43</u>	<u>28</u>
<b>Equity</b>			
Contribution	10	7,000	7,000
Retained earnings		283	235
<b>Total equity</b>		<u>7,283</u>	<u>7,235</u>
<b>Total equity and liabilities</b>		<u>7,326</u>	<u>7,263</u>

The financial statements on pages 4 to 19 were approved and authorised for issuance by the Board of Governors on March 30, 2021 and signed on their behalf by:

  
\_\_\_\_\_  
Marcos Prado Troyjo  
President

  
\_\_\_\_\_  
Leslie Warren/Maasdorp  
Chief Financial Officer

  
\_\_\_\_\_  
Paritosh Pandit  
Chief Financial Controller

THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2020  
EXPRESSED IN THOUSANDS OF USD

	<u>Note</u>	<u>Contribution</u>	<u>Retained earnings</u>	<u>Total</u>
As at January 1, 2020		7,000	235	7,235
Profit for the year		-	48	48
Total comprehensive income for the year		-	48	48
As at December 31, 2020		<u>7,000</u>	<u>283</u>	<u>7,283</u>
	<u>Note</u>	<u>Contribution</u>	<u>Retained earnings</u>	<u>Total</u>
As at January 1, 2019		6,500	89	6,589
Profit for the year		-	146	146
Total comprehensive income for the year		-	146	146
Contribution	10	500	-	500
As at December 31, 2019		<u>7,000</u>	<u>235</u>	<u>7,235</u>



## THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

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#### 1. GENERAL INFORMATION

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

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

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

As of December 31, 2020, all the contribution of USD 4,000,000, USD 1,500,000 and USD 1,500,000 has been received from China, India and the Russian MOF respectively by the NDB-PPF.

#### 2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

##### ***Amendments to IFRSs that are mandatorily effective for the current year***

In the current year, the NDB-PPF has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2020 for the preparation of the NDB-PPF's financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

STATEMENT OF CASH FLOWS  
FOR YEAR ENDED DECEMBER 31, 2020  
EXPRESSED IN THOUSANDS OF USD

	Year ended December 31, <u>2020</u>	Year ended December 31, <u>2019</u>
<b>OPERATING ACTIVITIES</b>		
Profit for the year	<u>48</u>	<u>146</u>
Operating cash flows before changes in operating assets and liabilities	<u>48</u>	<u>146</u>
Net decrease/(increase) in due from banks other than cash and cash equivalents	4,000	(4,000)
Net increase in other assets	(3)	(1)
Net increase/(decrease) in other liabilities	<u>15</u>	<u>(2)</u>
<b>NET CASH FROM/(USED IN) OPERATING ACTIVITIES</b>	<u>4,060</u>	<u>(3,857)</u>
<b>FINANCING ACTIVITIES</b>		
Contribution received	<u>-</u>	<u>500</u>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<u>-</u>	<u>500</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>4,060</u>	<u>(3,357)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>3,262</u>	<u>6,619</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>7,322</u>	<u>3,262</u>

## THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

### 2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

#### ***Amendments to IFRSs that are mandatorily effective for the current year - continued***

The application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRSs in the current year had no material impact on the NDB-PPF's financial positions and performance for the current and prior years and/or disclosures set out in these financial statements.

#### ***New and amendments to IFRSs in issue but not yet effective***

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

IFRS 17	Insurance Contracts and the related Amendments <sup>1</sup>
Amendments to IFRS 16	Covid-19-Related Rent Concessions <sup>4</sup>
Amendments to IFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to IFRS 9 and IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2 <sup>5</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>1</sup>
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to IAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use <sup>2</sup>
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract <sup>2</sup>
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2023.

<sup>2</sup> Effective for annual periods beginning on or after 1 January, 2022.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after June 1, 2020.

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2021.

The NDB-PPF anticipates that the application of all the above new and amendments to IFRSs will have no material impact on the financial statements in the foreseeable future.

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

#### **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. For the purpose of preparation of the annual financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users.

## THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

#### Basis of preparation - continued

The management of the Bank has, at the time of approving the annual financial statements, a reasonable expectation that the NDB-PPF has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the NDB-PPF takes into account the characteristics of the asset or liability, if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. 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, 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.

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 NDB-PPF can access at the measurement date.
- Level 2: Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs are unobservable inputs for the asset or liability.

The preparation of the annual financial statements, in conformity with IFRSs, requires the use of certain accounting estimates. This requires management to exercise its judgement in preparing the annual financial statements.

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

## THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

#### Revenue

##### *Interest income*

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

#### Financial Instruments

##### *Initial recognition and measurement*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The NDB-PPF's financial instruments mainly consist of cash and cash equivalents and due from banks other than cash and cash equivalents.

Financial assets and financial liabilities are recognised in the statement of financial position when the NDB-PPF becomes a party to the contractual provisions of the instrument. 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. 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 fair value through profit or loss ("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.

## THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

#### **Financial instruments** - continued

##### ***Classification and subsequent measurement of financial instruments***

##### **Financial assets**

The NDB-PPF classifies its financial assets under IFRS 9 *Financial instruments* depending on the NDB-PPF's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

##### ***Financial assets measured at amortised cost***

The NDB-PPF classifies an asset measured at amortised cost when the following conditions have been met:

- The financial asset is held within a business model whose objective 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 NDB-PPF 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 fair value through other comprehensive income ("FVTOCI").

##### ***Financial assets classified as at FVTOCI***

The NDB-PPF 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. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

##### ***Financial assets at FVTPL***

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

## THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

#### Financial instruments - continued

#### *Classification and subsequent measurement of financial instruments* - continued

#### Financial assets - continued

#### *Financial assets at FVTPL* - continued

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the NDB-PPF may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "net gains on financial instruments at fair value through profit or loss" line item.

#### Financial liabilities and equity

#### *Classification as debt or 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.

#### *Equity instruments*

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

#### *Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

## THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

#### Financial instruments - continued

#### *Classification and subsequent measurement of financial instruments* - continued

#### Financial liabilities and equity - continued

#### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

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 NDB-PPF manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designed and effective as a hedging instrument or a financial guarantee contract.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated at FVTPL upon initial recognition if:

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL
- 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 NDB-PPF's key management personnel.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

#### *Financial liabilities at amortised cost*

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.



## THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

#### Financial instruments - continued

##### *Impairment*

The NDB-PPF performs impairment assessment under expected credit loss ("ECL") model on financial assets which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. ECL of a financial instrument should be measured in a way that reflects:

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

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

*i) Stage 1: 12-month ECL*

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

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

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

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

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

More details about credit risk analysis are provided in Note 4.

## THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

#### Financial instruments - continued

##### *Derecognition of financial instruments*

The NDB-PPF derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers its rights the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the NDB-PPF neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the NDB-PPF recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the NDB-PPF retains substantially all the risks and rewards of ownership of a transferred financial asset, the NDB-PPF continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the carrying amount of the financial asset derecognised and the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in FVTOCI reserve is reclassified to profit or loss. On derecognition of an investment in equity instrument which the NDB-PPF has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained earnings.

The NDB-PPF derecognises financial liabilities when, and only when, the NDB-PPF's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### Cash and cash equivalents

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

### 4. FINANCIAL RISK MANAGEMENT

#### Overview

All the financial instruments of the NDB-PPF as of December 31, 2020 and 2019 are measured at amortised cost.

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

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### 4. FINANCIAL RISK MANAGEMENT - continued

#### Overview - continued

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

The NDB-PPF was not exposed to many financial risks with the exception of credit risk and interest rate risk associated with the financial institutions with which it deposited its cash resources for the year ended December 31, 2020. The impact of a change in interest rates during the reporting year is not considered significant by management.

#### Credit risk

The NDB-PPF takes on exposure to credit risk, which is a risk that one counterparty to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The NDB-PPF placed its cash equivalents and deposits with highly-rated banks (senior investment grade credit ratings) in mainland China. There has been no significant increase in credit risk since initial recognition associated with the amounts due from banks up to December 31, 2020.

### 5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

*Fair value of the NDB-PPF's financial instruments that are not measured at fair value on a recurring basis*

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

### 6. INTEREST INCOME

	Year ended <u>December 31,2020</u> USD'000	Year ended <u>December 31,2019</u> USD'000
Interest income from banks	98	192
Total	<u>98</u>	<u>192</u>

### 7. OPERATING EXPENSES

	Year ended <u>December 31,2020</u> USD'000	Year ended <u>December 31,2019</u> USD'000
Auditor's remuneration	50	46
Total	<u>50</u>	<u>46</u>

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8. CASH AND CASH EQUIVALENTS

	As at December 31, <u>2020</u> USD'000	As at December 31, <u>2019</u> USD'000
Demand deposit	7,322	172
Time deposit with original maturity within three months	-	3,090
<b>Total</b>	<u>7,322</u>	<u>3,262</u>

9. DUE FROM BANKS OTHER THAN CASH AND CASH EQUIVALENTS

	As at December 31, <u>2020</u> USD'000	As at December 31, <u>2019</u> USD'000
Commercial banks	-	7,090
<b>Total</b>	-	7,090
Less: time deposit with original maturity within three months	-	(3,090)
<b>Total</b>	<u>-</u>	<u>4,000</u>

10. CONTRIBUTION

As at December 31, 2020	Contribution <u>committed</u> USD'000	Contribution <u>received</u> USD'000
China	4,000	4,000
Russia	1,500	1,500
India	1,500	1,500
<b>Total</b>	<u>7,000</u>	<u>7,000</u>

As at December 31, 2019	Contribution <u>committed</u> USD'000	Contribution <u>received</u> USD'000
China	4,000	4,000
Russia	1,500	1,500
India	1,500	1,500
<b>Total</b>	<u>7,000</u>	<u>7,000</u>

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11. RELATED PARTY DISCLOSURES

The NDB-PPF's related parties are the Bank and the Contributors.

The Bank is entrusted with the administration of the NDB-PPF to fulfill its purpose. The NDB-PPF has not incurred any management fees to the Bank for its administration of the NDB-PPF for the year ended December 31, 2020 and 2019.

12. SUBSEQUENT EVENTS

Up to the date of the issuance of the financial statements, there has been no material subsequent events since December 31, 2020 that would require additional disclosure or adjustment to the financial statements.

13. APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The financial statements were approved by the Management and the Board of Governors of the Bank and authorised for issuance on March 30, 2021.

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