

THE NEW DEVELOPMENT BANK

Independent Auditor's Report and
Financial Statements
For the year ended December 31, 2021
(Prepared in accordance with International
Financial Reporting Standards)

THE NEW DEVELOPMENT BANK

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

<u>CONTENTS</u>	<u>PAGE(S)</u>
INDEPENDENT AUDITOR'S REPORT	1 - 4
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	5
STATEMENT OF FINANCIAL POSITION	6
STATEMENT OF CHANGES IN EQUITY	7
STATEMENT OF CASH FLOWS	8 - 9
NOTES TO THE ANNUAL FINANCIAL STATEMENTS	10 - 81

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, 2021, 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, 2021, 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.

Key Audit Matters

Key audit matter is the matters that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Measurement of expected credit loss (ECL) of loans and advances	
<p>We identified the measurement of ECL for the Bank's loans and advances as a key audit matter due to the significance of these assets to the Bank's financial statements and the significant management judgement and estimation required in the measurement.</p>	<p>Our procedures in relation to management's measurement of ECL for loans and advances included:</p> <ul style="list-style-type: none"> • Evaluating key controls of the management over the measurement of ECL;
<p>As disclosed in Note 4 to the financial statements, significant management judgement and estimation required in the measurement of ECL includes assessing whether the credit risk of an asset has significantly increased, using appropriate models and assumptions, determining the key inputs including probability of default (PD) and loss given default (LGD), selecting forward-looking scenarios and their probability weighting.</p>	<ul style="list-style-type: none"> • Evaluating the appropriateness of the ECL model, and the critical assumptions and parameters used in the model, including PD, LGD and weighting of forward-looking scenarios; • Evaluating the determination of the criteria for significant increase in credit risk by management and, on a sample basis, testing its application;
<p>As at 31 December 2021, the Bank held loans and advances to customers of USD 14,000 million, less impairment allowance of USD 35 million as disclosed in Note 20 to the financial statements.</p>	<ul style="list-style-type: none"> • On a sample basis, checking the weighted calculation of the ECL for the selected loans and advances.

Other Information

The Management of the Bank is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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 identified above when it becomes available 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and describe actions applicable in the jurisdiction.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

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

The 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 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 scepticism 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.

We also provide the Board of Governors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Governors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte Touche Tohmatsu CPA LLP

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

May 19, 2022

THE NEW DEVELOPMENT BANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021
EXPRESSED IN MILLIONS OF U.S. DOLLARS

	<u>Notes</u>	<u>Year ended December 31, 2021</u>	<u>Year ended December 31, 2020</u>
Interest income	7	271	254
Interest expense	7	(123)	(73)
Net interest income	7	<u>148</u>	<u>181</u>
Net fee income	8	8	5
Net losses on financial instruments at fair value through profit or loss (FVTPL)	9	<u>(46)</u>	<u>(191)</u>
		<u>110</u>	<u>(5)</u>
Staff costs	10	(49)	(41)
Other operating expenses	11	(19)	(14)
Impairment losses under expected credit loss model, net of reversal		(2)	(38)
Foreign exchange gains		60	208
Other expense	12	<u>(11)</u>	<u>(9)</u>
Operating profit for the year		<u>89</u>	<u>101</u>
Unwinding of interest on paid-in capital receivables		<u>21</u>	<u>49</u>
Profit for the year		<u>110</u>	<u>150</u>
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
Fair value (loss)/gain on debt instruments at fair value through other comprehensive income (FVTOCI)		(7)	1
Impairment loss for debt instruments at FVTOCI included in profit or loss		<u>1</u>	<u>-*</u>
Other comprehensive (expense)/income for the year		<u>(6)</u>	<u>1</u>
Total comprehensive income for the year		<u>104</u>	<u>151</u>


* Less than United States Dollar (USD) half of a million

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021
EXPRESSED IN MILLION OF U.S. DOLLARS


	<u>Notes</u>	As at December <u>31, 2021</u>	As at December <u>31, 2020</u>
Assets			
Cash and cash equivalents	13	1,856	2,193
Due from banks other than cash and cash equivalents	14	4,916	6,762
Derivative financial assets	15	44	27
Financial assets held under resale agreements	16	-	66
Financial assets at FVTPL	17	211	400
Debt instruments at FVTOCI	18	1,298	131
Debt instruments measured at amortised cost	19	2,258	763
Loans and advances	20	13,965	6,612
Paid-in capital receivables	21	335	1,885
Right-of-use assets		-*	-*
Property and equipment	22	1	1
Intangible assets	23	1	1
Other assets	24	3	3
Total assets		<u><u>24,888</u></u>	<u><u>18,844</u></u>
Liabilities			
Derivative financial liabilities	15	160	98
Financial liabilities designated at FVTPL	25	10,140	5,556
Note payables	26	3,296	2,815
Bond payable	27	499	-
Lease liabilities		-*	-*
Contract liabilities	28	46	28
Other liabilities	29	14	14
Total liabilities		<u><u>14,155</u></u>	<u><u>8,511</u></u>
Equity			
Paid-in capital	30	10,299	10,000
Reserves	31	(14)	(26)
Retained earnings		448	359
Total equity		<u><u>10,733</u></u>	<u><u>10,333</u></u>
Total equity and liabilities		<u><u>24,888</u></u>	<u><u>18,844</u></u>

* Less than USD half of a million

The annual financial statements on pages 5 to 81 were approved and authorised for issue by the Board of Governors on May 19, 2022 and signed on their behalf by:



Marcos Prado Troyjo
President




Halima Nazeer

Director General, Finance, Budget and Accounting



Leslie Warren Maasdorp

Chief Financial Officer



Paritosh Pandit

Chief Financial Controller

THE NEW DEVELOPMENT BANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
EXPRESSED IN MILLIONS OF U.S. DOLLARS

	<u>Paid-in capital</u>	<u>Capital reserve</u>	<u>Revaluation reserve</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
As at January 1, 2021	10,000	.*	1	(27)	359	10,333
Operating profit for the year	-	-	-	-	89	89
Other comprehensive expense for the year	-	-	(6)	-	-	(6)
Unwinding of interest on paid-in capital receivables for the year	-	-	-	-	21	21
Total comprehensive (expense)/income for the year	-	-	(6)	-	110	104
Capital subscriptions	299	-	-	-	-	299
Impact on discounting of paid-in capital receivables (Note 21)	-	-	-	(10)	-	(10)
Special contribution from founding member	-	.*	-	-	-	.*
Impact of early payment on paid-in capital receivables (Note 21)	-	-	-	7	-	7
Reclassification of unwinding of interest arising from paid-in capital receivables	-	-	-	21	(21)	-
As at December 31, 2021	<u>10,299</u>	<u>.*</u>	<u>(5)</u>	<u>(9)</u>	<u>448</u>	<u>10,733</u>
	<u>Paid-in capital</u>	<u>Capital reserve</u>	<u>Revaluation reserve</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
As at January 1, 2020	10,000	-	-	(86)	258	10,172
Operating profit for the year	-	-	-	-	101	101
Other comprehensive income for the year	-	-	1	-	-	1
Unwinding of interest on paid-in capital receivables for the year	-	-	-	-	49	49
Total comprehensive income for the year	-	-	1	-	150	151
Impact of early payment on paid-in capital receivables (Note 21)	-	-	-	10	-	10
Special contribution from founding member	-	.*	-	-	-	.*
Reclassification of unwinding of interest arising from paid-in capital receivables	-	-	-	49	(49)	-
As at December 31, 2020	<u>10,000</u>	<u>.*</u>	<u>1</u>	<u>(27)</u>	<u>359</u>	<u>10,333</u>

* Less than USD half of a million

THE NEW DEVELOPMENT BANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
EXPRESSED IN MILLIONS OF U.S. DOLLARS

	Year ended December 31, 2021	Year ended December 31, 2020
OPERATING ACTIVITIES		
Profit for the year	110	150
Adjustments for:		
Interest expense	123	73
Interest income from debt instruments measured at amortised cost	(15)	(3)
Interest income from debt instruments at FVTOCI	(2)	-*
Depreciation and amortisation	1	2
Unrealised losses on financial instruments	9	181
Realised losses on derivatives	21	10
Realised losses from bond designated at FVTPL	16	-
Unwinding of interest on paid-in capital receivables	(21)	(49)
Impairment losses under expected credit loss model, net of reversal	2	38
Exchange gains on debt instruments measured at amortised cost	(1)	(5)
Exchange gains on note payables	(2)	-
Exchange gains on lease liabilities	-*	-*
Debt issuance cost	11	9
Operating cash flows before changes in operating assets and liabilities	<u>252</u>	<u>406</u>
Net decrease/(increase) in due from banks	1,847	(1,271)
Net increase in loans and advances	(7,349)	(5,086)
Net decrease/(increase) in financial assets held under resale agreements	66	(66)
Net decrease/(increase) in financial assets at FVTPL	400	(400)
Net increase in other assets	-*	(1)
Net increase in other liabilities and contract liabilities	14	7
Cash used in operations	<u>(4,770)</u>	<u>(6,411)</u>
Interest paid on bonds and borrowings	(79)	(27)
Interest paid on financial assets sold under repurchase agreements	-	-*
Interest paid on note payables	(14)	(15)
Interest paid on lease liabilities	-*	-*
Interest received on debt instruments measured at amortised cost	12	2
Interest received on debt instruments at FVTOCI	4	-
Proceeds from settlement on derivatives	1,952	344
Payment of settlement on derivatives	(2,003)	(356)
NET CASH USED IN OPERATING ACTIVITIES	<u>(4,898)</u>	<u>(6,463)</u>

* Less than USD half of a million

THE NEW DEVELOPMENT BANK

STATEMENT OF CASH FLOWS - continued
FOR THE YEAR ENDED DECEMBER 31, 2021
EXPRESSED IN MILLIONS OF U.S. DOLLARS

	Year ended December <u>31, 2021</u>	Year ended December <u>31, 2020</u>
INVESTING ACTIVITIES		
Purchase of debt instruments measured at amortised cost	(2,133)	(771)
Proceeds from redemption of debt instruments measured at amortised cost	641	47
Proceeds from redemption of debt instruments FVTOCI	79	-
Purchase of financial assets at FVTPL	(212)	(2)
Purchase of debt instruments at FVTOCI	(1,256)	(130)
Proceeds from settlement on derivatives	15	-*
Payment of settlement on derivatives	(18)	-*
Purchase of property and equipment and intangible assets	<u>(1)</u>	<u>(1)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,885)</u>	<u>(857)</u>
FINANCING ACTIVITIES		
Paid-in capital received	1,867	1,888
Contribution from founding member	*	*
Proceeds from short term borrowings	-	250
Repayments of short-term borrowings	-	(360)
Proceeds from issuance of bonds	5,533	4,530
Repayment from bonds	(464)	-
Proceeds from issuance of note payables	5,421	5,527
Repayments from note payables	(4,933)	(3,338)
Payment of issuance cost of bond	(11)	(9)
Payment of issuance cost on note payables	*	*
Proceeds from settlement on derivatives	405	26
Payment of settlement on derivatives	(372)	(24)
Repayments of lease liabilities	*	*
NET CASH FROM FINANCING ACTIVITIES	<u>7,446</u>	<u>8,490</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(337)	1,170
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,193</u>	<u>1,023</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>1,856</u>	<u>2,193</u>
Interest received	<u>299</u>	<u>265</u>
Interest paid	<u>(93)</u>	<u>(42)</u>

* Less than USD half of a million

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 known as 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. The Bank has established Africa Regional Centre in Johannesburg, Americas Regional Office in Sao Paulo with a sub-office in Brasilia, and Eurasian Regional Centre in Moscow.

As at December 31, 2021, the Bank's total approved membership is nine, of which seven have completed the membership process and have become members of the Bank in accordance with 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.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing 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.

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Bank has applied the following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the annual periods beginning on or after January 1, 2021 for the preparation of the Bank's financial statements:

Amendment to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7 IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2

In addition, the Bank has early applied the Amendment to IFRS 16 "Covid-19-Related Rent Concessions beyond 30 June 2021".

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

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

2.1 Impacts on application of Amendment to IFRS 16 "Covid-19-Related Rent Concessions" and early application of Amendment to IFRS 16 "Covid-19-Related Rent Concessions beyond 30 June 2021"

The Bank has applied the Amendment to IFRS 16 "Covid-19-Related Rent Concessions" for the first time and early applied the Amendment to IFRS 16 "Covid-19-Related Rent Concessions beyond 30 June 2021" in the current year retrospectively. The amendments introduce a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions that occurred as a direct consequence of the Covid-19 pandemic that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 Leases (IFRS 16) if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of these amendments has had no material impact on the Bank's financial positions and performance in the current and prior years as there was no Covid-19-related rent concession received.

2.2 Impacts on application of Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2"

The Bank has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying IFRS 7 Financial Instruments: Disclosures (IFRS 7).

As at 1 January 2021, the Bank has several financial assets, derivatives, the interests of which are indexed to benchmark rates that will be subject to interest rate benchmark reform. The following table shows the total amounts of these outstanding contracts. The amounts of financial assets are shown at their carrying amounts and derivatives are shown at their notional amounts.

THE NEW DEVELOPMENT BANK

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

2.2 Impacts on application of Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform - Phase 2" - continued

	USD London Interbank Offered Rate <u>(USD LIBOR)</u> USD million	CHF London Interbank Offered Rate <u>(CHF LIBOR)</u> USD million
Financial assets		
Loans and advances	4,563	569
Derivatives		
Interest Rate Swap	2,130	-
Cross Currency Swap	649	-

The amendments have had no impact on the financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Bank will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for loans and advances measured at amortised cost. The update of the effective interest rate applying the practical expedient is not expected to have significant effect on carrying amounts of loans and advances. Additional disclosures as required by IFRS 7 are set out in Note 5.

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments ²
Amendments to IFRS 3	Reference to the Conceptual Framework ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to IAS 8	Definition of Accounting Estimates ²
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use ¹
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract ¹
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020 ¹

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

² Effective for annual periods beginning on or after January 1, 2023.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Basis of preparation of financial statements

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 Management of the Bank has, at the time of approving the annual financial statements, a reasonable expectation that the Bank 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 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 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 *Impairment of Assets*.

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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Revenue

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

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

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

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

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

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

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

Output method

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Revenue - continued

Interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments at fair value through other comprehensive income.

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 (see below). 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.

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. They are subsequently amortised over the period of the contract when they satisfy the performance obligation.

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 directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other 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. Property and equipment are stated in the statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Property and equipment - continued

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 less their residual values over their estimated useful lives, 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 the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

Intangible assets

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

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Intangible assets - continued

Internally-generated intangible assets – research and development expenditure - continued

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development
- and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible asset are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as an intangible assets that are acquired separately.

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, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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

IT software	5 years
-------------	---------

Leases

Definition of a lease

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Leases - continued

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.

Right-of-use assets

The cost of right-of-use assets 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 remeasurement of lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Leases - continued

As a lessee - continued

Right-of-use assets - continued

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 leases various buildings for its operations and presents right-of-use assets as a separate line item on the statement of financial position.

Lease liabilities

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

The lease payments include:

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

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

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

Lease modifications

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Leases - continued

As a lessee - continued

Lease modifications - continued

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 and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

The 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Bank compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 or a group of cash-generating units) 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, due from banks other than cash and cash equivalents, loans and advances, paid-in capital receivables, financial assets held under resale agreements, debt instruments measured at amortised cost, debt instruments at FVTOCI, other receivables, financial assets at FVTPL, note payables, bond payable, other payables measured at amortised cost, derivative financial assets/liabilities and bonds designated at 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 marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Initial recognition and measurement - continued

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. 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 and subsequent measurement of financial instruments

Financial assets

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

Financial assets measured at amortised cost

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Classification and subsequent measurement of financial instruments - continued

Financial assets - continued

Financial assets classified as 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 the 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 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.

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 Bank 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 Bank may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Classification and subsequent measurement of financial instruments - continued

Financial assets - continued

Financial assets at FVTPL - continued

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.

Equity instruments designated as at FVTOCI

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 earnings. 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

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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Classification and subsequent measurement of financial instruments - continued

Financial liabilities and equity - continued

Financial liabilities

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

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

A financial liability 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; 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Classification and subsequent measurement of financial instruments - continued

Financial liabilities and equity - continued

Financial liabilities at FVTPL - continued

The Bank applies the fair value measurement option to the bonds issued in 2019, 2020 and 2021 respectively to reduce the measurement or recognition inconsistency resulting from the economically related interest rate swap and cross currency swap with the same notional amount in total.

Financial liabilities measured at amortised cost

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

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 15.

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

Impairment

The Bank performs impairment assessment under expected credit loss (ECL) model on financial assets and items which are subject to impairment assessment under IFRS 9, such as loans and advances, debt instruments measured at amortised cost, debt instruments at FVTOCI, financial assets held under resale agreements, due from banks other than cash and cash equivalents, paid-in capital receivables, loan commitments and other receivables. 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.

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 and loan commitments 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.

Measurement of ECL

The measurement of ECL is a function of the probability of default, loss given default (LGD) (i.e. the magnitude of the loss if there is a default) and the exposure at default (EAD). The assessment of the probability of default and LGD 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.

Except for investments in debt instruments that are measured at FVTOCI and loan commitments, the Bank recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of due from banks other than cash and cash equivalents, loans and advances and debt instruments measured at amortised cost where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the debt instrument revaluation reserve without reducing the carrying amount of these debt instruments. Such amount represents the changes in the debt instrument revaluation reserve in relation to accumulated loss allowance.

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 other assets, when the amounts are over 180 days 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.

Derecognition/modification of financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Derecognition/modification of financial instruments - continued

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 Bank 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.

A modification of a financial asset occurs if the contractual cash flows are renegotiated or otherwise modified.

Except for changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform in which the Bank applies the practical expedient, when the contractual terms of a financial asset are modified, the Bank assesses whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Bank considers the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial asset, after reducing gross carrying amount that has been written off.

The Bank derecognises financial liabilities when, and only when, the Bank'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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Modification of financial liabilities

Except for changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform in which the Bank applies the practical expedient, when the contractual terms of a financial liability are modified, the Bank assesses whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Bank considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10%. For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Bank applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform - continued

For other changes made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Bank first applies the practical expedient to the changes required by interest rate benchmark reform by updating the effective interest rate. The Bank then applies the applicable requirements in IFRS 9 on modification of a financial asset or a financial liability (see accounting policy above) to the additional changes to which the practical expedient does not apply.

Offsetting

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

Net gains/loss on financial assets and liabilities designated at FVTPL

Net gains/loss on financial instruments at FVTPL represents non-trading derivatives held for risk management purposes used in economic hedge relationship but not qualifying for hedge accounting relationships, financial assets and financial liabilities designated as at FVTPL and also non-trading assets measured at FVTPL, as required by or elected under IFRS 9 *Financial Instruments*. The line item includes fair value changes, interest, dividends and foreign exchange differences.

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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Paid-in capital

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

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

Taxation

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

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

Cash and cash equivalents

Cash comprises of cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Bank's short-term, highly liquid investments that are readily convertible to 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 recognised 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 retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated after initial recognition.

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

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 and judgements 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.

Critical judgements in applying accounting policies

Measurement of the ECL allowance for loans and advances and loan commitments

The following significant judgement is required in applying the accounting requirements for measuring the ECL:

- Determining criteria for significant increase in credit risk;

Key sources of estimation uncertainty

Measurement of the ECL allowance for loans and advances and loan commitments

The measurement of the ECL allowance for the Bank's loans and advances and loan commitments requires the use of a model and certain assumptions.

- Choosing an appropriate model and determining appropriate assumptions for the measurement of ECL; and
- Establishing the number and weighting of forward-looking scenarios for each type of product.

Valuation of bonds designated at FVTPL

Certain of the financial liabilities are measured at FVTPL. The valuation models of the bonds designated at FVTPL 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 are provided in Note 6.

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

Key sources of estimation uncertainty - continued

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. It was concluded by the Management of the Bank that the USD Libor yield curve is the most appropriate discount rate that reflects the time value and the credit risk of the receivables in question.

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. The management and various specialist committees are tasked with integrating the management of risk into the day-to-day activities of the Bank, by monitoring related risk parameters and tolerance through policies and procedures under the strategy approved by designated committees.

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

5. FINANCIAL RISK MANAGEMENT - continued

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 potential inability or unwillingness of borrowers or obligors to meet their financial obligation with the Bank stands as 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 are applied to exposures to single jurisdiction, sector, obligor and product.

The Bank mainly relies on external credit rating results from major international rating agencies (e.g. Moody's, S&P Global Ratings 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. In case a loan has neither a sovereign guarantee nor an external credit rating, the Bank uses an internal credit assessment taking into account specific project, borrower, sector, macro and country credit risks. The Risk Management Department of the Bank continuously monitors the overall credit risk of the Bank on a periodic basis.

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

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

ECL measurement

The Bank adopts 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 31, 2021 and 2020.

Significant increases in credit risk

In assessing whether a financial instrument has experienced a significant increase in credit risk, the Bank considers both qualitative and quantitative criteria including forward-looking information available without undue cost or effort. In particular, the following information is considered in assessing whether there has been a significant increase in credit risk. The Bank has applied the new qualitative criteria for the year ended December 31, 2021 after revisiting the way significant increase in credit risk is assessed for the Bank's portfolio. The quantitative criteria are not changed.

Quantitative criteria:

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

Qualitative criteria:

- History of arrears within 12 months;
- Adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its obligations;
- Material regulatory action against the borrower or counterparty that is expected to cause a significant change in the borrower's ability to meet its obligations.

Credit-impaired financial assets

The ECL 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 from the beginning of the next reporting period. 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 Bank has applied the new criteria for the year ended December 31, 2021 after revisiting the way credit-impaired financial asset is assessed for the Bank's portfolio.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit-impaired financial assets - continued

Evidence that a financial asset is credit impaired includes observable data about the following events:

- Delay in interest or principal payment exceeds 90 days or in the case of sovereign lending by more than 180 days;
- Any breach of contract other than payment overdue, such as covenant breach;
- Significant financial difficulty of the issuer or the borrower;
- Borrower or counterparty is no longer considered a going concern;
- Failure to pay a final judgement or court order;
- Bankruptcy, liquidation or the appointment of a receiver or any similar official.

The application of all above new criteria of significant increase in credit risk and credit-impaired financial asset in the current year has had no material impact on the Bank's financial positions and performance for the current year and/or disclosures set out in these financial statements.

Definition of default

For internal credit risk management, the Bank considers occurrence of an event of default when internally and externally obtained information indicates that the debtor is unlikely to discharge its obligations, including to the Bank, in full (without taking into account any collaterals held by the Bank).

The Management of the Bank considers that default has occurred when the financial asset is more than 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. For the sovereign loans, the Management of the Bank considers that the default occurs when it is more than 180 days past due. It aligns with the definition of payment default for sovereign exposures used by major international rating agencies and other Multilateral Development Banks.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

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 Moody's model considering specific rating, country and industry information for sovereign and non-sovereign exposures, due from banks, debt instruments measured at amortised cost and debt instruments at FVTOCI. It is then conditioned on three future macro-economic scenarios (baseline, optimistic and pessimistic);
- LGD for the sovereign loans is set at a range of 10% to 45% and LGD is set at 45% for non-sovereign loans with senior unsecured claims and 75% for the non-sovereign loans with subordinated claim. 10% of LGD is adopted for sovereign debt instruments measured at amortised cost and sovereign debt instruments at FVTOCI. 45% of LGD is adopted for due from banks, non-sovereign debt instruments measured at amortised cost and non-sovereign debt instruments at FVTOCI.
- EAD includes the sum of loans disbursed, interest receivable and net projected disbursement schedule over the next 12 months for sovereign and non-sovereign loans or loan commitments. The EAD includes the sum of principal and interest receivable over the next 12 months for due from banks, debt instruments measured at amortised cost and debt instruments at FVTOCI; and
- Discount rate is equal to the effective interest rate.

Lifetime ECL measurement

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

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

- The process to determine the PIT-PD term structure is the same as 12-month ECL calculation for the first 5 years and PIT-PD is assumed to revert back to the long-run PD for the remaining years;
- LGD is the same as those used for the 12-month ECL calculation;
- 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 for sovereign and non-sovereign loans or loan commitments. The EAD is based on the sum of principal and interest receivable throughout the remaining life for due from banks, debt instruments measured at amortised cost and debt instruments at FVTOCI;
- Discount rate is equal to the effective interest rate; and
- Lifetime of the loan is the remaining loan contract period.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Forward-looking information incorporated in ECL

Macro scenario development

- (i) Three macro scenarios: baseline, optimistic and pessimistic. Each scenario is forecasted for five 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 and use of forward-looking information available without undue cost or effort, whereby, going forward the current path of macroeconomic projections is judged to have 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 48.4 million (December 31, 2020: USD 46.2 million) or increased by USD 2.4 million (December 31, 2020: USD 2.3 million).

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, 2021</u>	Maximum <u>facility</u> USD million	Effective <u>facility</u> USD million	<u>Utilised</u> USD million	Unutilised loan <u>commitments</u> USD million
Senior investment grade	6,645	6,645	3,978	2,667
Investment grade	10,025	9,405	5,777	3,628
Sub-investment grade	5,073	5,073	4,182	891
Total	<u>21,743</u>	<u>21,123</u>	<u>13,937</u>	<u>7,186</u>
Interest receivable			63	-
Less: Provision for loans and commitments			(35)	(4)
Carrying amount as at December 31, 2021			<u>13,965</u>	<u>7,182</u>

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

<u>As at December 31, 2020</u>	<u>Maximum facility</u> USD million	<u>Effective facility</u> USD million	<u>Utilised</u> USD million	<u>Unutilised loan commitments</u> USD million
Senior investment grade	4,861	4,861	1,783	3,078
Investment grade	7,929	7,309	2,988	4,321
Sub-investment grade	3,092	2,092	1,838	254
Total	15,882	14,262	6,609	7,653
Interest receivable			34	-
Less: Provision for loans and commitments			(31)	(8)
Carrying amount as at December 31, 2020			6,612	7,645

Additional disclosures on the stage classification and ECL allowance of loans and advances and loan commitments are set out in Note 20 and Note 29, respectively.

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, 2021</u>	<u>Effective facility</u> USD million	<u>Utilised</u> USD million	<u>Unutilised loan commitments</u> USD million
Brazil	1,600	1,595	5
Russia	3,530	2,068	1,462
India	5,738	3,519	2,219
China	6,482	3,868	2,614
South Africa	3,773	2,887	886
Total	21,123	13,937	7,186
Interest receivable		63	-
Less: Provision for loans and commitments		(35)	(4)
Carrying amount as at December 31, 2021		13,965	7,182

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Concentration risk - continued

<u>As at December 31, 2020</u>	<u>Effective facility</u> USD million	<u>Utilised</u> USD million	<u>Unutilised loan commitments</u> USD million
Brazil	833	513	320
Russia	1,968	991	977
India	5,092	2,047	3,045
China	4,811	1,733	3,078
South Africa	1,558	1,325	233
Total	<u>14,262</u>	<u>6,609</u>	<u>7,653</u>
Interest receivable		34	-
Less: Provision for loans and commitments		<u>(31)</u>	<u>(8)</u>
Carrying amount as at December 31, 2020		<u>6,612</u>	<u>7,645</u>

Credit exposure on deposits

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

	<u>As at December 31, 2021</u> USD million	<u>As at December 31, 2020</u> USD million
Cash equivalents		
Senior investment grade	1,856	2,176
Investment grade	-*	17
Sub-investment grade	-*	-*
Due from banks other than cash and cash equivalents		
Senior investment grade	4,618	6,746
Investment grade	301	20
Total	<u>6,775</u>	<u>8,959</u>
Less: ECL allowance	<u>(3)</u>	<u>(4)</u>
Carrying amount	<u>6,772</u>	<u>8,955</u>

* Less than USD half of a million

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit exposure on debt instruments measured at amortised costs

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Senior investment grade	2,190	737
Investment grade	71	27
Total	<u>2,261</u>	<u>764</u>
Less: ECL allowance	(3)	(1)
Carrying amount	<u>2,258</u>	<u>763</u>

Credit exposure on debt instruments at FVTOCI

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Senior investment grade	<u>1,298</u>	<u>131</u>
Total	<u>1,298</u>	<u>131</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 debt instruments at FVTOCI up to December 31, 2021 and 2020. 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. Any overdue amount related to paid-in capital receivables cannot be discharged and shall be paid in full. No payments are overdue as of December 31, 2021. In the opinion of the Management of the Bank, the credit risk associated with the capital receivables is not material.

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 bonds issued, time deposits, loans and advances, debt instruments measured at amortised cost and debt instruments at FVTOCI. The Bank chose counterparties with high credit rating 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.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Risk concentrations

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

Liquidity risk

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

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

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

The following table presents the cash flows associated with main financial assets and financial liabilities based on the remaining period at the end of reporting period to the contractual maturity date. 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.

THE NEW DEVELOPMENT BANK

5. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

<u>As at December 31, 2021</u>	<u>On demand</u> USD million	<u>Less than 1</u> <u>month</u> USD million	<u>1-3</u> <u>months</u> USD million	<u>3-12</u> <u>months</u> USD million	<u>1-5</u> <u>years</u> USD million	<u>Over 5</u> <u>years</u> USD million	<u>Total</u> USD million
Non-derivatives							
Cash and cash equivalents	1,300	379	177	-	-	-	1,856
Due from banks other than cash and cash equivalents	-	721	401	3,399	422	-	4,943
Debt instruments measured at amortised cost	-	152	3	459	1,704	-	2,318
Loans and advances	-	-	138	233	3,002	16,353	19,726
Paid-in capital receivables	-	45	14	8	172	105	344
Other financial assets	-*	-	2	-	-	-	2
Financial liabilities designated at FVTPL	-	-*	(355)	(142)	(10,112)	-	(10,609)
Bond payable	-	-	-	(1)	(503)	-	(504)
Note payables	-	(320)	(566)	(2,412)	-	-	(3,298)
Lease liabilities	-	-	-*	-*	-	-	-*
Other financial liabilities	(6)	-	-	-	-	-	(6)
Sub-total	1,294	977	(186)	1,544	(5,315)	16,458	14,772
Derivatives							
<i>Net setting derivatives</i>							
Interest rate swap - cash inflow	-	-	10	31	3	-	44
Interest rate swap - cash outflow	-	(2)	(2)	(12)	(124)	-	(140)
<i>Gross setting derivatives</i>							
Cross currency swap - cash inflow	-	-*	5	9	890	579	1,483
Cross currency swap - cash outflow	-	(1)	(6)	(17)	(826)	(661)	(1,511)
Foreign exchange forward - cash inflow	-	1,267	228	226	127	-	1,848
Foreign exchange forward - cash outflow	-	(1,269)	(227)	(226)	(127)	-	(1,849)
Sub-total	-	(5)	8	11	(57)	(82)	(125)
Net	1,294	972	(178)	1,555	(5,372)	16,376	14,647

* Less than USD half of a million

THE NEW DEVELOPMENT BANK

5. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

<u>As at December 31, 2020</u>	<u>On demand</u> USD million	<u>Less than 1</u> <u>month</u> USD million	<u>1-3</u> <u>months</u> USD million	<u>3-12</u> <u>months</u> USD million	<u>1-5</u> <u>years</u> USD million	<u>Over 5</u> <u>years</u> USD million	<u>Total</u> USD million
Non-derivatives							
Cash and cash equivalents	2,100	59	34	-	-	-	2,193
Due from banks other than cash and cash equivalents	-	2,497	1,299	2,338	661	-	6,795
Financial assets held under resale agreements	-	66	-	-	-	-	66
Debt instruments measured at amortised cost	-	31	49	564	136	-	780
Loans and advances	-	-	83	97	1,322	7,446	8,948
Paid-in capital receivables	-	292	-	-	1,620	-	1,912
Other financial assets	.*	-	1	-	-	-	1
Financial liabilities designated at FVTPL	-	-	(14)	(516)	(5,246)	-	(5,776)
Note payables	-	(510)	(30)	(2,280)	-	-	(2,820)
Lease liabilities	-	-	.*	.*	.*	-	.*
Other financial liabilities	(4)	-	-	-	-	-	(4)
Sub-total	2,096	2,435	1,422	203	(1,507)	7,446	12,095
Derivatives							
<i>Net setting derivatives</i>							
Interest rate swap - cash inflow	-	-	4	14	7	-	25
Interest rate swap - cash outflow	-	(1)	(3)	(4)	(24)	-	(32)
Foreign exchange forward - cash outflow	-	-	(1)	-	-	-	(1)
<i>Gross setting derivatives</i>							
Cross currency swap - cash inflow	-	-	5	384	195	588	1,172
Cross currency swap - cash outflow	-	.*	(3)	(365)	(166)	(679)	(1,213)
Foreign exchange forward - cash inflow	-	-	354	155	-	-	509
Foreign exchange forward - cash outflow	-	-	(382)	(155)	-	-	(537)
Sub-total	-	(1)	(26)	29	12	(91)	(77)
Net	2,096	2,434	1,396	232	(1,495)	7,355	12,018

* Less than USD half of a million

5. FINANCIAL RISK MANAGEMENT - continued

Interest rate benchmark reform

As listed in Note 20 and Note 15 several of the Bank's LIBOR loans and advances and derivatives will be subject to the interest rate benchmark reform. The Bank is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

LIBOR

The Financial Conduct Authority has confirmed all LIBOR settings which the Bank's financial instruments are carried at will either cease to be provided by any administrator or no longer be representative:

- immediately after 31 December 2021, in the case of all Swiss franc (CHF) settings; and
- immediately after 30 June 2023, in the case of the 3-month and 6-month US dollar settings.

(i) Risks arising from the interest rate benchmark reform

The following are the key risks for the Bank arising from the transition:

Interest rate related risks

For contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Bank's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This may give rise to additional interest rate risk that was not anticipated when the contracts were entered into.

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward-looking term rates published for a period (e.g. three months) at the beginning of that period and include an interbank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments.

Liquidity risk

The additional uncertainty on various alternative rates which are typically published on overnight basis will require additional liquidity management. The Bank will manage the risks within the Bank's liquidity risk ratios and indicators, as prescribed in the liquidity risk management policy.

5. FINANCIAL RISK MANAGEMENT - continued

Interest rate benchmark reform - continued

(i) Risks arising from the interest rate benchmark reform - continued

Litigation risk

If no agreement is reached to implement the interest rate benchmark reform on contracts which have not been transitioned to the relevant alternative benchmark rates (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Bank is working closely with all counterparties to avoid this from occurring.

Interest rate basis risk

Interest rate basis risk may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. The Bank will monitor this risk against its risk management policy.

(ii) Progress towards implementation of alternative benchmark interest rates

As part of the Bank's risk management for transition, new contracts entered into by the Bank are linked to the relevant alternative benchmark rates or interest rates which are not subject to reform to the extent feasible. Otherwise, the Bank ensured the relevant contracts include detailed fallback clauses clearly referencing the alternative benchmark rate and the specific triggering event on which the clause is activated.

During the year, none of the relevant contracts has been transitioned to the relevant replacement rates.

The Bank transitioned its CHF LIBOR-linked loan agreement from CHF LIBOR to Swiss Average Rate Overnight (SARON) after 31 December 2021.

The Bank is planning to transition the majority of its USD LIBOR-linked loan agreements through introduction of, or amendments to, fallback clauses into the agreements which will change the basis for determining the interest cash flows from USD LIBOR to Secured Overnight Financing Rate (SOFR) at an agreed point in time.

The following table shows the total amounts of outstanding contracts and the progress in completing the transition to alternative benchmark rates as at 31 December 2021. The amounts of loans and advances are shown at their carrying amounts and derivatives are shown at their notional amounts.

5. FINANCIAL RISK MANAGEMENT - continued

Interest rate benchmark reform - continued

(ii) Progress towards implementation of alternative benchmark interest rates - continued

Financial instruments prior to transition	Maturing in	Carrying amounts/ notional amounts USD million	Transition progress for financial instruments
Non-derivative financial assets			
Loans and advances linked to CHF LIBOR	2029	548	Transitioned to SARON in January 2022
Loans and advances linked to USD LIBOR	2029-2051	8,839	Expect to transition to SOFR in latest by H2 2023
Derivatives			
Pay 3-months ZAR Jibar, receive 3-months USD LIBOR cross currency swaps	2025	32	To transition derivatives via International Swaps and Derivatives Association (ISDA) protocol*
Pay 6-months USD LIBOR, receive USD fixed interest rate swaps	2022-2026	7,400	To transition derivatives via ISDA protocol
Pay USD fixed, receive 3-months USD LIBOR interest rate swaps	2023-2026	155	To transition derivatives via ISDA protocol
Pay 3-months ZAR Jibar/3-months Shibor, receive 6-months USD LIBOR cross currency swaps	2024-2026	625	To transition derivatives via ISDA protocol
Pay 6-months USD LIBOR, receive HKD/GBP fixed cross currency swaps	2024-2026	113	To transition derivatives via ISDA protocol
Pay 6-months CHF LIBOR, receive 6-months USD LIBOR cross currency swaps	2029	516	To transition derivatives via ISDA protocol

*The Bank has adhered to ISDA IBOR Fallbacks Protocol for the IBOR fallback of its derivatives governed by ISDA.

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, exchange rate risk and other price 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 macroeconomic 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. Majority of loans and advances of the Bank are subject to either floating 6-month Libor or floating 3-month Shibor. The Bank uses interest rate swaps to convert liabilities and certain financial instruments into floating 6-month Libor, 3-month Libor or 3-month Shibor.

Accordingly, interest rate risk management aims to minimise mismatches between the 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, Economic value of equity 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 repricing profile which is used to analyse the impact of interest rate change on its net interest income due to the repricing mismatch between assets, liabilities and off-balance sheet positions over a range of repricing buckets. Interest bearing assets and liabilities including off-balance sheet positions are slotted into their respective repricing time bands according to their earliest interest repricing dates.

5. FINANCIAL RISK MANAGEMENT - continued

Interest rate risk - continued

Interest rate sensitivity analysis

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

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

When reporting to the Management on the interest rate risk, a 25 basis point 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, 2021</u> USD million	Year ended <u>December 31, 2020</u> USD million
+ 25 basis points	18	18
- 25 basis points	(18)	(18)

Exchange rate risk

The exchange rate risk the Bank faces arises from the impact of exchange rate movements on net open positions. 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, 2021 and 2020. The RMB exposures are mainly hedged through swaps or forwards.

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.

5. FINANCIAL RISK MANAGEMENT - continued

Exchange rate risk - continued

Exchange rate sensitivity analysis

The following table shows the impact of an appreciation or depreciation of USD against foreign currencies as at December 31, 2021 and December 31, 2020 assuming that all other variables remain constant.

	Impact on Profit	
	Year ended <u>December 31, 2021</u> USD million	Year ended <u>December 31, 2020</u> USD million
10% appreciation	-*	-*
10% depreciation	-*	-*

* Less than USD half of a million

Other price risk

Other price risk is primarily about the unfavorable changes of fund price and other financial instruments prices that cause financial losses. Quantitatively, other price risk the Bank facing is mainly the proportionate fluctuation in the Bank's profits due to the price fluctuation of the financial instrument. The Bank monitors the investment position on a regular basis.

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.

5. FINANCIAL RISK MANAGEMENT - continued

Capital management - continued

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 five 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 FVTPL, derivatives, financial assets at FVTPL, and debt instruments at FVTOCI as at December 31, 2021.

The Risk Management Department 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.

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 FVTPL 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 fair value of money market fund is based on the net asset value that is determined with reference to observable prices of underlying investment portfolio and adjustments of related expenses.
- The fair value of private equity fund is based on the shares of the net asset values of the fund, determined with reference to fair value of the underlying investments by using valuation techniques, including valuation methods such as discounted cash flow model.
- The fair value of debt instruments at FVTOCI is based on quoted price in an active market.

The following table presents the valuation techniques and inputs used for the financial instrument in Level 3.

Financial instruments	Valuation technique(s) and key input(s)	Significant Unobservable input(s)	Relationship of unobservable input(s) to fair value
Private equity fund	Shares of the net value of the fund, determined with reference to the fair value of the underlying investments, calculated based on valuation techniques including discounted cash flow model.	Discount rate	The higher the discount rate, the lower the fair value.

THE NEW DEVELOPMENT BANK

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

	<u>Level 1</u> USD million	<u>Level 2</u> USD million	<u>Level 3</u> USD million	<u>Total</u> USD million
As at December 31, 2021				
Financial assets				
Financial assets at FVTPL	-	200	11	211
Debt instruments at FVTOCI	576	722	-	1,298
Derivatives	-	44	-	44
Total financial assets measured at fair value	<u>576</u>	<u>966</u>	<u>11</u>	<u>1,553</u>
Financial liabilities				
Derivatives	-	160	-	160
Financial liabilities designated at FVTPL	-	10,140	-	10,140
Total financial liabilities measured at fair value	<u>-</u>	<u>10,300</u>	<u>-</u>	<u>10,300</u>
	<u>Level 1</u> USD million	<u>Level 2</u> USD million	<u>Level 3</u> USD million	<u>Total</u> USD million
As at December 31, 2020				
Financial assets				
Financial assets at FVTPL	-	400	-	400
Debt instruments at FVTOCI	131	-	-	131
Derivatives	-	27	-	27
Total financial assets measured at fair value	<u>131</u>	<u>427</u>	<u>-</u>	<u>558</u>
Financial liabilities				
Derivatives	-	98	-	98
Financial liabilities designated at FVTPL	-	5,556	-	5,556
Total financial liabilities measured at fair value	<u>-</u>	<u>5,654</u>	<u>-</u>	<u>5,654</u>

There were no transfers between Level 1 and Level 2 for the year December 31, 2021 and the year ended December 31, 2020.

THE NEW DEVELOPMENT BANK

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

Reconciliation of Level 3 fair value measurements of financial assets at FVTPL

	As at December 31, 2021 USD million
As at beginning of the year	-
Purchased	11
Unrealised changes in fair value recognised in profit or loss	(1)
Transfer from level 2	1
As at end of the year	<u>11</u>

There were no third-party credit enhancements in the fair value measurement for financial liabilities designated at FVTPL as at December 31, 2021 and 2020.

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

The table below shows the carrying amount and expected fair value of loans and advances with obvious variance, which is not presented on the Bank's statement of financial position at their fair values. The fair value of loans and advances is determined in accordance with discounted cash flow method. The main parameters used in discounted cash flow method for financial instruments held by the Bank that are not measured on a recurring basis include loan interest rates, foreign exchange rates and counterparty credit spreads.

	<u>As at December 31, 2021</u>		<u>As at December 31, 2020</u>	
	<u>Carrying amount</u> USD million	<u>Fair value</u> USD million	<u>Carrying amount</u> USD million	<u>Fair value</u> USD million
Financial assets				
Loans and advances	<u>13,965</u>	<u>14,312</u>	<u>6,612</u>	<u>6,686</u>

As at December 31, 2021

	<u>Level 1</u> USD million	<u>Level 2</u> USD million	<u>Level 3</u> USD million	<u>Total</u> USD million
	Financial assets			
Loans and advances	<u>-</u>	<u>-</u>	<u>14,312</u>	<u>14,312</u>

THE NEW DEVELOPMENT BANK

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES - continued

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

As at December 31, 2020

	<u>Level 1</u> USD million	<u>Level 2</u> USD million	<u>Level 3</u> USD million	<u>Total</u> USD million
Financial assets				
Loans and advances	-	-	6,686	6,686

The fair value of the loans and advances above has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of respective counterparties.

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

7. NET INTEREST INCOME

	Year ended December <u>31, 2021</u> USD million	Year ended December <u>31, 2020</u> USD million
Interest income calculated using the effective interest rate method		
- Banks	67	149
- Loans and advances	186	100
- Debt instruments measured at amortised cost	15	3
- Financial assets held under resale agreements	1	2
- Debt instruments at FVTOCI	2	-*
Total interest income	<u>271</u>	<u>254</u>
Interest expense calculated using the effective interest rate method		
- Short-term borrowings	-	(1)
- Note payables	(9)	(18)
- Financial assets sold under repurchase agreements	-	-*
- Interest expense on bond payable	-*	-
Interest expense on financial liabilities at FVTPL	(114)	(54)
Interest expense on lease liabilities	-*	-*
Total interest expense	<u>(123)</u>	<u>(73)</u>
Net interest income	<u>148</u>	<u>181</u>

* Less than USD half of a million

THE NEW DEVELOPMENT BANK

8. NET FEE INCOME

	Year ended December <u>31, 2021</u> USD million	Year ended December <u>31, 2020</u> USD million
Front-end fee recognised	3	2
Commitment fee	5	3
Total	<u>8</u>	<u>5</u>

9. NET LOSSES ON FINANCIAL INSTRUMENTS AT FVTPL

	Year ended December <u>31, 2021</u> USD million	Year ended December <u>31, 2020</u> USD million
Derivatives	(66)	(74)
Bonds	21	(115)
Money market funds	-*	-*
Others (Note 1 below)	(1)	(2)
Total	<u>(46)</u>	<u>(191)</u>

The realised losses arising from derivative financial instruments for the year ended December 31, 2021 were USD 21 million (year ended December 31, 2020: realised losses of USD 10 million) and the realised losses arising from the bond redemption for the year ended December 31, 2021 were USD 16 million (year ended December 31, 2020: Nil).

Note 1: Others mainly represent unrealised losses on investments in private equity fund.

* Less than USD half of a million

THE NEW DEVELOPMENT BANK

10. STAFF COSTS

	Year ended December <u>31, 2021</u> USD million	Year ended December <u>31, 2020</u> USD million
Salaries and allowances	37	32
Other benefits	12	9
Total	<u>49</u>	<u>41</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 for the year ended December 31, 2021 for the SRP and PRP was USD 8 million (year ended December 31, 2020: USD 6 million) and USD 1 million (year ended December 31, 2020: USD 1 million) 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 the President of the Bank for the year ended December 31, 2021 and 2020. According to Article 11 of the Agreement, the Board of Governors shall determine the salary and terms of the service contract of the President of the Bank.

11. OTHER OPERATING EXPENSES

	Year ended December <u>31, 2021</u> USD million	Year ended December <u>31, 2020</u> USD million
Office expenses	5	3
Lease rentals in respect of short-term leases/low value assets	.*	.*
Professional fees	6	3
Auditor's remuneration	1	1
Travel expenses	.*	1
IT expenses	6	4
Hospitality expenses	.*	.*
Depreciation and amortisation	1	2
Others	.*	.*
Total	<u>19</u>	<u>14</u>

* Less than USD half of a million

THE NEW DEVELOPMENT BANK

12. OTHER EXPENSE

	Year ended December <u>31, 2021</u> USD million	Year ended December <u>31, 2020</u> USD million
Bond issuance costs	11	9
Total	<u>11</u>	<u>9</u>

13. CASH AND CASH EQUIVALENTS

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Cash on hand	_*	_*
Demand deposit	1,300	2,100
Time deposit with original maturity within three months	556	93
Total	<u>1,856</u>	<u>2,193</u>

* Less than USD half of a million

14. DUE FROM BANKS OTHER THAN CASH AND CASH EQUIVALENTS

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Commercial banks	5,475	6,859
Less: ECL allowance	(3)	(4)
	<u>5,472</u>	<u>6,855</u>
Less: Time deposit with original maturity within three months	(556)	(93)
Total	<u>4,916</u>	<u>6,762</u>

THE NEW DEVELOPMENT BANK

14. DUE FROM BANKS OTHER THAN CASH AND CASH EQUIVALENTS - continued

Reconciliation of provision for due from banks:

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
ECL allowance of due from banks as at beginning of the year	4	-
Additions	2	4
Derecognition	(3)	-
Change in risk parameters	-*	-*
ECL allowance of due from banks as at end of the year	<u>3</u>	<u>4</u>

* Less than USD half of a million

For the year ended December 31, 2021, the additions to the ECL allowance of USD 2 million (December 31, 2020: USD 4 million) was due to increase or origination of due from banks with gross carrying amount of USD 4,824 million (December 31, 2020: USD 6,605 million).

For the year ended December 31, 2021, the derecognition to the ECL allowance of USD 3 million was due to decrease of due from banks with gross carrying amount of USD 6,208 million.

15. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The Bank entered into derivative contracts for the new panda bond issued in February, 2019, the coronavirus combating bond issued in April, 2020, the 2020 RMB bond (Series 2) issued in July, 2020, 2021 RMB bond (Series 1) issued in March 2021, 2021 RMB bond (Series 2) issued in September 2021 that were paired with swaps of which the total notional amounts are RMB 3 billion, RMB 5 billion, RMB 2 billion, RMB 5 billion and RMB 2 billion respectively, to convert the issuance proceeds into the interest rate structure sought by the Bank.

Similarly, the Bank also entered into derivative contracts for the Euro Medium Term Note, including Series 1 issued in June, 2020, Series 2 issued in September, 2020, Series 3 issued in December, 2020, Series 4 issued in April, 2021, Series 5, 6, 7, 8 and 9 issued in July, 2021 that were paired with swaps of which the total notional amounts are USD 1.5 billion, USD 2 billion, USD 50 million, USD 1.5 billion, HKD 500 million, USD 50 million, USD 50 million, GBP 35 million and USD 2.25 billion respectively, to convert the issuance proceeds into the currency and/or interest rate structure sought by the Bank.

Besides, the Bank has entered into derivative contracts in connection with loans and advances, debt instruments measured at amortised cost, debt instruments at FVTOCI and due from banks that were paired with swaps to convert the notional amounts into the currency and/or interest rate structure sought by the Bank. 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 to convert the notional amounts into the currency structure sought by the Bank.

15. DERIVATIVE FINANCIAL ASSETS/LIABILITIES - continued

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, 2021 and 2020.

<u>As at December 31, 2021</u>	<u>Notional USD</u> USD million	<u>Fair Value Asset</u> USD million	<u>Fair Value Liability</u> USD million
Interest Rate Swap	10,227	31	124
Forward Contract	1,620	2	4
Cross Currency Swap	1,308	11	32
Total	<u>13,155</u>	<u>44</u>	<u>160</u>

<u>As at December 31, 2020</u>	<u>Notional USD</u> USD million	<u>Fair Value Asset</u> USD million	<u>Fair Value Liability</u> USD million
Interest Rate Swap	5,301	13	19
Forward Contract	536	-	27
Cross Currency Swap	1,021	14	52
Total	<u>6,858</u>	<u>27</u>	<u>98</u>

Interest Rate Swap: As at December 31, 2021, fixed rates received ranged from 0.353% to 3.32% (December 31, 2020: 0.353% to 3.32%), and floating reference rates paid were 3-month Shibor or 6-month USD Libor (December 31, 2020: 3-month Shibor or 6-month USD Libor). Besides, fixed rates paid ranged from 0.2635% to 0.8570% (December 31, 2020: 0.2635% to 0.384%), and floating reference rate received was 3-month USD Libor (December 31, 2020: 3-month USD Libor).

Cross Currency Swap: As at December 31, 2021 and 2020, the Bank's cross currency swap is related to swap contracts with exchange of RMB, South African Rant (ZAR), Swiss Franc (CHF), Russian Rubles (RUB), Hong Kong Dollar (HKD) or Great Britain Pound (GBP) to USD. As at December 31, 2021, fixed rates received ranged from 0.56% to 1.88% (December 31, 2020: 1.88% to 3.07%), and floating reference rates paid were 6-month USD Libor, 6-month CHF Libor, 3-month ZAR Jibar or 3-month Shibor (December 31, 2020: 6-month USD Libor, 6-month CHF Libor, 3-month ZAR Jibar or 3-month Shibor). Besides, fixed rate paid ranged from 2.98% to 5.945% (December 31, 2020: 5.945%), and floating reference rates received were 6-month USD Libor or 3-month USD Libor (December 31, 2020: 6-month USD Libor or 3-month USD Libor).

Forward contract: As at December 31, 2021 and 2020, the exchange rates of forward contracts with exchange of RMB to USD were ranged from USD 1: RMB 6.4283 to USD 1: RMB 6.5317 and USD 1: RMB 6.6818 to USD 1: RMB 7.0965, respectively. As at December 31, 2021, the exchange rates of forward contracts with exchange of European Monetary Unit (EUR) to USD were ranged from USD 1: EUR 0.8808 to USD 1: EUR 0.8872. As at December 31, 2020, the exchange rate of forward contract with exchange of Indian Rupee (INR) to USD was USD 1: INR 75.023.

THE NEW DEVELOPMENT BANK

16. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Analysed by collateral type:		
Bonds	-	66
Total	<u>-</u>	<u>66</u>

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Mandatorily measured at FVTPL:		
- Money market fund	200	400
- Private equity fund	11	-*
Total	<u>211</u>	<u>400</u>

* Less than USD half of a million

18. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Government bonds	98	101
Corporate bonds	282	30
Commercial bank bonds	423	-
Policy bank bonds	495	-
Total	<u>1,298</u>	<u>131</u>

THE NEW DEVELOPMENT BANK

18. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - continued

Reconciliation of provision for debt instruments at FVTOCI:

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
ECL allowance of debt instruments at FVTOCI as at beginning of the year	-*	-
Additions	1	-*
Derecognition	-*	-
Change in risk parameters	-*	-
ECL allowance of debt instruments at FVTOCI as at end of the year	<u>1</u>	<u>-*</u>

* Less than USD half of a million

For the year ended December 31, 2021, the additions to the ECL allowance of USD 1 million (December 31, 2020: less than USD half of a million) was due to increase or purchase of debt instruments at FVTOCI with gross carrying amount of USD 1,249 million (December 31, 2020: USD 130 million).

For the year ended December 31, 2021, the derecognition to the ECL allowance of less than USD half of a million (December 31, 2020: Nil) was due to redemption of debt instruments at FVTOCI with gross carrying amount of USD 74 million (December 31, 2020: Nil).

19. DEBT INSTRUMENTS MEASURED AT AMORTISED COST

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Government bonds	100	-
Policy bank bonds	1,009	207
Commercial bank bonds	833	557
Corporate bonds	319	-
Less: ECL allowance	(3)	(1)
Net carrying amount	<u>2,258</u>	<u>763</u>

THE NEW DEVELOPMENT BANK

19. DEBT INSTRUMENTS MEASURED AT AMORTISED COST - continued

Reconciliation of provision for debt instruments measured at amortised cost:

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
ECL allowance of debt instruments measured at amortised cost as at beginning of the year	1	-
Additions	3	1
Derecognition	(1)	-
Change in risk parameters	-*	-*
ECL allowance of debt instruments measured at amortised cost as at end of the year	<u>3</u>	<u>1</u>

* Less than USD half of a million

For the year ended December 31, 2021, the additions to the ECL allowance of USD 3 million (December 31, 2020: USD 1 million) was due to increase or purchase of debt instruments measured at amortised cost with gross carrying amount of USD 2,134 million (December 31, 2020: USD 736 million).

For the year ended December 31, 2021, the derecognition to the ECL allowance of USD 1 million (December 31, 2020: Nil) was due to redemption of debt instruments measured at amortised cost with gross carrying amount of USD 638 million (December 31, 2020: Nil).

20. LOANS AND ADVANCES

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Principal	13,937	6,609
Interest receivable	63	34
Gross carrying amount	<u>14,000</u>	<u>6,643</u>
Less: ECL allowance	(35)	(31)
Net carrying amount	<u>13,965</u>	<u>6,612</u>

As at December 31, 2021, the net carrying amount of loans and advances denominated in RMB, CHF, ZAR or EUR amounted to USD 5,158 million (December 31, 2020: USD 2,079 million).

As at December 31, 2021, the floating reference rates of the Bank's loans and advances were 6-month USD Libor, 6-month CHF Libor, 6-month Euribor, 3-month Shibor or 3-month ZAR Jibar (December 31, 2020: 6-month USD Libor, 6-month CHF Libor, 6-month Euribor or 3-month Shibor).

THE NEW DEVELOPMENT BANK

20. LOANS AND ADVANCES - continued

Reconciliation of provision for loans raised

	<u>12 month ECL</u> USD million	<u>Lifetime ECL - not credit-impaired</u> USD million	<u>Total</u> USD million
ECL allowance of loans as at January 1, 2021	18	13	31
Additions	10	1	11
Derecognition	(5)	-	(5)
Change in risk parameters	(5)	3	(2)
ECL allowance of loans as at December 31, 2021	<u>18</u>	<u>17</u>	<u>35</u>

	<u>12 month ECL</u> USD million	<u>Lifetime ECL - not credit-impaired</u> USD million	<u>Total</u> USD million
ECL allowance of loans as at January 1, 2020	5	-	5
Transfer to lifetime ECL - not credit-impaired	(1)	1	-
Additions	11	8	19
Derecognition	(1)	-	(1)
Change in risk parameters	4	4	8
ECL allowance of loans as at December 31, 2020	<u>18</u>	<u>13</u>	<u>31</u>

For the year ended December 31, 2021, the additions to the ECL allowance of USD 11 million (December 31, 2020: USD 19 million) was due to increase or origination of loans and advances with gross carrying amount of USD 7,666 million (December 31, 2020: USD 5,415 million).

For the year ended December 31, 2021, the derecognition to the ECL allowance of USD 5 million (December 31, 2020: 1 million) was due to repayment of loans and advances with gross carrying amount of USD 338 million (December 31, 2020: USD 331 million).

<u>As at December 31, 2021</u>	<u>12 month ECL</u> USD million	<u>Lifetime ECL - not credit-impaired</u> USD million	<u>Total</u> USD million
Gross carrying amount	<u>13,679</u>	<u>321</u>	<u>14,000</u>
<u>As at December 31, 2020</u>	<u>12 month ECL</u> USD million	<u>Lifetime ECL - not credit-impaired</u> USD million	<u>Total</u> USD million
Gross carrying amount	<u>6,342</u>	<u>301</u>	<u>6,643</u>

THE NEW DEVELOPMENT BANK

21. PAID-IN CAPITAL RECEIVABLES

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Balance as at the beginning of year (Note 1 below)	1,912	3,800
Add:		
Paid-in capital receivables originated during the year (Note 2 below)	299	-
Less:		
Installment received during the year	<u>(1,867)</u>	<u>(1,888)</u>
Total nominal amounts of receivable at the end of the year (Note 4 below)	<u>344</u>	<u>1,912</u>
Less:		
Interest on paid-in capital receivables to be unwound in the future year (Note 3 below)	<u>(9)</u>	<u>(27)</u>
Balance as at the end of the year	<u>335</u>	<u>1,885</u>

Note 1: The Bank established the rights to receive the initial subscribed paid-in capital of founding members 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 seven installments. The first installment of paid-in capital shall be paid by each member within six months of the Agreement coming in force and the second installment shall become due 18 months from the date the Agreement came into force. The remaining five installments shall each become due successively one year from the date on which the preceding installment becomes due.

Note 2: The Bank established the rights to receive the initial subscribed paid-in capital of the Bangladesh and the United Arab Emirates of 1,884 shares and 1,112 shares respectively, which total USD 188 million and USD 111 million upon the effective date of the Board of Governors' Resolutions of admission of the Bangladesh as a Borrowing Member and the United Arab Emirates as a Non-Borrowing Member of the New Development Bank (the Resolutions). The payment of the amount of Bangladesh and the United Arab Emirates initially subscribed to the paid-in capital stock of the Bank shall be made in seven installments, respectively. The first installment of paid-in capital of Bangladesh and the United Arab Emirates shall be paid within six months of the Resolutions coming in force respectively and the second installment shall become due 18 months from the date the Resolutions came into force. The remaining five installments shall each become due successively one year from the date on which the preceding installment becomes due.

21. PAID-IN CAPITAL RECEIVABLES - continued

Note 3: The discounting method is applied to derive the interest to be unwound over the installment period. The balance includes an initial discount of USD 632 million (December 31, 2020: USD 622 million) less USD 587 million of accumulated unwinding interest already unwound on the paid-in capital receivables (December 31, 2020: USD 566 million) and USD 36 million of accumulated early payment impact on discounting which was credited to reserves as an equity transaction by the end of December 31, 2021 (December 31, 2020: USD 29 million).

Note 4: As at December 31, 2021, 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 68 million, and that will become due over one year amounted to an undiscounted value of USD 276 million.

22. PROPERTY AND EQUIPMENT

	<u>IT Equipment</u> USD million	<u>Appliance</u> USD million	<u>Vehicle</u> USD million	<u>Furniture</u> USD million	<u>Others</u> USD million	<u>Total</u> USD million
Cost as at January 1, 2021	3	-*	-*	-*	-*	3
Additions during the year	1	-	-*	-*	-	1
Cost at December 31, 2021	4	-*	-*	-*	-*	4
Accumulated depreciation as at January 1, 2021	(2)	-*	-*	-*	-*	(2)
Depreciation for the year	(1)	-*	-*	-*	-*	(1)
Accumulated depreciation as at December 31, 2021	(3)	-*	-*	-*	-*	(3)
Net book value as at December 31, 2021	1	-*	-*	-*	-	1
	<u>IT Equipment</u> USD million	<u>Appliance</u> USD million	<u>Vehicle</u> USD million	<u>Furniture</u> USD million	<u>Others</u> USD million	<u>Total</u> USD million
Cost as at January 1, 2020	2	-*	-*	-*	-*	2
Additions during the year	1	-*	-*	-*	-	1
Disposal for the year	-*	-	-	-	-	-*
Cost at December 31, 2020	3	-*	-*	-*	-*	3
Accumulated depreciation as at January 1, 2020	(1)	-*	-*	-*	-*	(1)
Depreciation for the year	(1)	-*	-*	-*	-*	(1)
Disposals/written-off	-*	-	-	-	-	-*
Accumulated depreciation as at December 31, 2020	(2)	-*	-*	-*	-*	(2)
Net book value as at December 31, 2020	1	-*	-*	-*	-*	1

* Less than USD half of a million

THE NEW DEVELOPMENT BANK

23. INTANGIBLE ASSETS

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Cost		
As at the beginning of year	2	2
Additions for the year	_*	_*
As at the end of the year	<u>2</u>	<u>2</u>
Accumulated amortisation		
As at the beginning of the year	(1)	_*
Amortisation for the year	_*	(1)
As at the end of the year	<u>(1)</u>	<u>(1)</u>
Net book value		
As at the end of the year	<u>1</u>	<u>1</u>

* Less than USD half of a million

24. OTHER ASSETS

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Commitment fee receivables	2	1
Other receivables	_*	_*
Others (Note 1 below)	1	2
Total	<u>3</u>	<u>3</u>

* Less than USD half of a million

Note 1: Others mainly include prepayment.

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

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Bond - Principal	10,012	5,426
- Interest payable	80	45
- Fair value adjustment	48	85
Total	<u>10,140</u>	<u>5,556</u>

25. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS - continued

In February 2019, the Bank issued a RMB 3 billion (USD 448 million 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%.

In April 2020, the Bank issued a three-year coronavirus combating bond with par value of RMB 5 billion (USD 704 million equivalent) with the maturity date on April 3, 2023. The interest is paid by the Bank annually with fixed coupon rate of 2.43%.

In June 2020, the Bank issued a three-year Euro Medium Term Note (Series 1) with par value of USD 1.5 billion at a discount with the maturity date on June 23, 2023. The interest is paid by the Bank annually with fixed coupon rate of 0.625%.

In July 2020, the Bank issued a five-year RMB bond (Series 2) with par value of RMB 2 billion (USD 284 million equivalent) with the maturity date on July 7, 2025. The interest is paid by the Bank annually with fixed coupon rate of 3%.

In September 2020, the Bank issued a five-year Euro Medium Term Note (Series 2) with par value of USD 2 billion at a discount with the maturity date on September 29, 2025. The interest is paid by the Bank annually with fixed coupon rate of 0.625%.

In December 2020, the Bank issued a two-year note with par value of USD 50 million under the Euro Medium Term Note Programme as a private placement, with the maturity date on December 23, 2022. The interest is paid by the Bank annually with fixed coupon rate of 0.435%.

In March 2021, the Bank issued a three-year RMB bond with par value of RMB 5 billion (USD 767 million equivalent) with the maturity date on March 25, 2024. The interest is paid by the Bank annually with fixed coupon rate of 3.22%.

In April 2021, the Bank issued a five-year Euro Medium Term Note (Series 4) with par value of USD 1.5 billion at a discount with the maturity date on April 27, 2026. The interest is paid by the Bank annually with fixed coupon rate of 1.125%.

In July 2021, the Bank issued four notes with par value of USD 50 million, USD 50 million, GBP 35 million and HKD 500 million under the Euro Medium Term Note Programme as private placements, with the maturity date on July 5, 2023, July 6, 2023, July 15, 2024 and July 2, 2026 respectively. The interests are paid by the Bank annually with fixed coupon rate of 0.38%, 0.36%, 0.56% and 1% respectively.

In July 2021, the Bank issued a three-year Euro Medium Term Note with par value of USD 2.25 billion at a discount with the maturity date on July 22, 2024. The interest is paid by the Bank annually with fixed coupon rate of 0.625%.

THE NEW DEVELOPMENT BANK

25. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS - continued

In September 2021, the Bank issued a five-year RMB bond with par value of RMB 2 billion (USD 310 million equivalent) with the maturity date on September 17, 2026. The interest is paid by the Bank annually with fixed coupon rate of 3.02%.

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, 2021 and the year ended December 31, 2020. The contractual principal amount to be paid at maturity in original currency are RMB 17 billion (December 31, 2020: RMB 13 billion) for RMB denominated bonds, USD 7.4 billion, GBP 35 million and HKD 500 million (December 31, 2020: USD 3.55 billion, GBP Nil, HKD Nil) for USD, GBP and HKD denominated notes respectively.

26. NOTE PAYABLES

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Note payables	3,296	2,815
Total	<u>3,296</u>	<u>2,815</u>

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

27. BOND PAYABLE

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Bond payable	499	-
Total	<u>499</u>	<u>-</u>

In December 2021, the Bank issued a three-year note with par value of USD 500 million at a discount under the Euro Medium Term Note Programme with the maturity date on December 9, 2024. The interest is paid by the Bank quarterly with a floating rate of SOFR compounded index plus 28 basis points.

THE NEW DEVELOPMENT BANK

28. CONTRACT LIABILITIES

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Deferred income (Note 1 below)	46	28
Total	<u>46</u>	<u>28</u>

Note 1: The deferred income disclosed above relates to the unsatisfied performance obligations of front-end fees as at December 31, 2021 and December 31, 2020. Revenue recognised for the year ended December 31, 2021 that was included in the contract liabilities balance at beginning of the period is 2 million (year ended December 31, 2020: 2 million).

As at January 1, 2020, contract liabilities amounted to USD 15 million.

29. OTHER LIABILITIES

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Employee benefits payable	_*	_*
Accrued expenses	6	4
Impairment provision of loan commitments	4	8
Annual Leave provision	4	2
Total	<u>14</u>	<u>14</u>

* Less than USD half of a million

Reconciliation of provision for loan commitments

	<u>12 month ECL</u> USD million	Lifetime ECL - not <u>credit-impaired</u> USD million	<u>Total</u> USD million
ECL allowance of loan commitments as at January 1, 2021	4	4	8
Additions	_*	-	_*
Derecognition	(2)	-	(2)
Change in risk parameters	(1)	(1)	(2)
ECL allowance of loan commitments as at December 31, 2021	<u>1</u>	<u>3</u>	<u>4</u>

* Less than USD half of a million

THE NEW DEVELOPMENT BANK

29. OTHER LIABILITIES - continued

	<u>12 month ECL</u> USD million	<u>Lifetime ECL - not credit-impaired</u> USD million	<u>Total</u> USD million
ECL allowance of loan commitments as at January 1, 2020	1	-	1
Additions	3	4	7
Derecognition	(1)	-	(1)
Change in risk parameters	1	-	1
ECL allowance of loan commitments as at December 31, 2020	<u>4</u>	<u>4</u>	<u>8</u>

For the year ended December 31, 2021, the additions to the ECL allowance of less than USD half of a million (December 31, 2020: USD 7 million) was due to origination of loan commitments that is expected to be drawn down within 12 months from December 31, 2021 of USD 731 million (December 31, 2020: USD 2,609 million).

For the year ended December 31, 2021, the derecognition to the ECL allowance of USD 2 million (December 31, 2020: 1 million) was due to expiry or full utilisation of loan commitments of USD 1,405 million (December 31, 2020: USD 1,044 million).

30. 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 and the Resolutions, is set out in the following table. There is no amendment to the terms of subscription payment in the Agreement and the Resolutions on December 31, 2021. 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 and the Resolutions.

	<u>As at December 31, 2021</u>		<u>As at December 31, 2020</u>	
	Number of shares	Amount in USD million	Number of shares	Amount in USD million
Authorised shared capital	1,000,000	100,000	1,000,000	100,000
Less: unsubscribed by members	(485,020)	(48,502)	(500,000)	(50,000)
Total subscribed capital	514,980	51,498	500,000	50,000
Less: callable capital	(411,984)	(41,199)	(400,000)	(40,000)
Total paid in capital	<u>102,996</u>	<u>10,299</u>	<u>100,000</u>	<u>10,000</u>

THE NEW DEVELOPMENT BANK

30. 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, 2021</u>	Total shares Numbers	Total capital USD million	Callable capital USD million	Paid-in capital USD million	Paid-in capital ¹ received USD million	Paid-in capital outstanding USD million
Brazil	100,000	10,000	8,000	2,000	1,973	27
Russia	100,000	10,000	8,000	2,000	2,000	-
India	100,000	10,000	8,000	2,000	2,000	-
China	100,000	10,000	8,000	2,000	2,000	-
South Africa	100,000	10,000	8,000	2,000	1,982	18
Bangladesh	9,420	942	754	188	-	188
United Arab Emirates	5,560	556	445	111	-	111
Total	514,980	51,498	41,199	10,299	9,955	344

<u>As at December 31, 2020</u>	Total shares Numbers	Total capital USD million	Callable capital USD million	Paid-in capital USD million	Paid-in capital ¹ received USD million	Paid-in capital outstanding USD million
Brazil	100,000	10,000	8,000	2,000	1,358	642
Russia	100,000	10,000	8,000	2,000	1,780	220
India	100,000	10,000	8,000	2,000	1,650	350
China	100,000	10,000	8,000	2,000	1,650	350
South Africa	100,000	10,000	8,000	2,000	1,650	350
Total	500,000	50,000	40,000	10,000	8,088	1,912

¹Pursuant to Article 9 and attachment 2 of the Agreement each founding members' paid in capital stock is received in seven installments. Besides, the Bangladesh's and United Arab Emirates' paid in capital stock are also received in seven installments according to annexure of the Resolutions.

As at December 31, 2021 all paid-in capital from founding members was received in accordance with the Articles, and partial receipts relating to the seventh instalment has been received ahead of schedule.

THE NEW DEVELOPMENT BANK

31. RESERVES

	As at December 31, 2021 USD million	As at December 31, 2020 USD million
Capital reserve (Note 1 below)	-*	-*
Debt instrument revaluation reserve	(5)	1
Other reserve (Note 2 below)	(9)	(27)
Total	<u>(14)</u>	<u>(26)</u>

* Less than USD half of a million

Note 1: As of December 31, 2021, the Bank has received cash contributions amounting to USD 0.20 million (December 31, 2020: USD 0.11 million) from Russian Federation for the reimbursement of relevant payments for the Eurasian Regional Office. The Bank recognises such cash contributions from Russian Federation as capital reserve on the basis that the contribution agreement does not include a contractual obligation of the Bank to repay cash or another financial asset, and there are no other features that would meet the definition of a financial liability.

Note 2: 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 installment 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 from retained earnings to other reserves immediately following the unwinding treatment in the relevant accounting period.

32. 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, 2021 USD million	Financing cash inflows USD million	Non-cash movements				Fair value changes and others ¹ USD million	As at December 31, 2021 USD million
			Unwinding of interest USD million	Impact of early payment USD million	Capital subscriptions USD million	Impact of discounting USD million		
Derivative financial assets	27	(6)	-	-	-	-	7	28
Paid-in capital receivables	<u>1,885</u>	<u>(1,867)</u>	<u>21</u>	<u>7</u>	<u>299</u>	<u>(10)</u>	<u>-</u>	<u>335</u>
Total assets from Financing activities	<u>1,912</u>	<u>(1,873)</u>	<u>21</u>	<u>7</u>	<u>299</u>	<u>(10)</u>	<u>7</u>	<u>363</u>

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

	As at January 1, 2021 USD million	Net financing cash inflows/ (outflows) USD million	Non-cash movements			Operating cash outflows ² USD million	As at December 31, 2021 USD million
			Interest accrued movements USD million	Fair value changes and others ¹ USD million	Foreign exchange movements USD million		
Derivative financial liabilities	19	27	-	81	-	-	127
Financial liabilities designated at FVTPL	5,556	4,570	114	(21)	-	(79)	10,140
Bond payable	-	499	-*	-	-	-	499
Note payables	2,815	488	9	-*	(2)	(14)	3,296
Lease liabilities	-*	-*	-*	-*	-*	-*	-*
Total liabilities from financing activities	8,390	5,584	123	60	(2)	(93)	14,062

* Less than USD half of a million

¹ USD 7 million represents fair value changes and realised gains of derivative financial assets hedging transactions which are financing in nature economically. USD 81 million represents fair value changes and realised gains of derivative financial liabilities hedging transactions which are financing in nature economically.

² USD 79 million 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 14 million 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.

	As at January 1, 2020 USD million	Financing cash inflows USD million	Non-cash movements			As at December 31, 2020 USD million
			Unwinding of interest USD million	Impact of early payment USD million	Fair value changes and others ³ USD million	
Derivative financial assets	5	(3)	-	-	25	27
Paid-in capital receivables	3,714	(1,888)	49	10	-	1,885
Total assets from Financing activities	3,719	(1,891)	49	10	25	1,912

THE NEW DEVELOPMENT BANK

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

	As at January 1, 2020 USD million	Net financing cash inflows/ (outflows) USD million	Non-cash movements		Foreign exchange movements USD million	Operating cash outflows ⁴ USD million	As at December 31, 2020 USD million
			Interest accrued movements USD million	Fair value changes and others ³ USD million			
Derivative financial liabilities	10	(1)	-	10	-	-	19
Financial liabilities designated at FVTPL	883	4,530	54	115	-	(26)	5,556
Note payables	623	2,189	18	-*	-	(15)	2,815
Short-term borrowings	110	(110)	1	-	-	(1)	-
Lease liabilities	-*	-*	-*	-*	-*	-*	-*
Total liabilities from Financing activities	<u>1,626</u>	<u>6,608</u>	<u>73</u>	<u>125</u>	<u>-*</u>	<u>(42)</u>	<u>8,390</u>

* Less than USD half of a million

³ USD 25 million represents fair value changes and realised gains of derivative financial assets hedging financing activities economically. USD 10 million represents fair value changes and realised losses of derivative financial liabilities hedging financing activities economically.

⁴ USD 26 million 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 15 million 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 1 million represents an interest payment for the interest portion of short-term borrowings which is recorded in the Bank's statement of cash flows as net cash used in operating activities.

33. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at December 31, 2021 USD million	As at December 31, 2020 USD million
Financial assets		
Financial assets at FVTPL	255	427
Debt instruments at FVTOCI	1,298	131
Financial assets measured at amortised cost	<u>23,332</u>	<u>18,282</u>
	<u>24,885</u>	<u>18,840</u>
Financial liabilities		
Financial liabilities at FVTPL	10,300	5,654
Financial liabilities measured at amortised cost	<u>3,801</u>	<u>2,819</u>
	<u>14,101</u>	<u>8,473</u>

THE NEW DEVELOPMENT BANK

34. COMMITMENTS

1) Capital commitments

As at December 31, 2021, the Bank had no irrevocable capital expenditures commitment.

2) Credit Commitments

	As at December <u>31, 2021</u> USD million	As at December <u>31, 2020</u> USD million
Letters of effectiveness signed	7,186	7,653
Letters of effectiveness yet to be signed	620	1,620
Total	<u>7,806</u>	<u>9,273</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.

35. 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 Related Party Disclosures, exempted from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments and debt instruments at FVTOCI, 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 the Bank and the other entity.

The name and relationship with founding member governments are disclosed below. As at December 31, 2021 and December 31, 2020, no transactions, individually or collectively with governments are considered significant to the Bank.

THE NEW DEVELOPMENT BANK

35. RELATED PARTY DISCLOSURE - continued

(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
The People's Republic of Bangladesh	The Bank's shareholder
The United Arab Emirates	The Bank's shareholder

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

On September 28, 2021, the Bank has inaugurated the permanent premises and officially moved in November 2021. The temporary office was returned in November 2021.

The permanent premise of the Bank is located at 1,600 Guozhan Road, Shanghai Expo Park, Pudong New District, Shanghai.

According to the Agreement between the Government of the Russian Federation and the Bank on the Hosting of the New Development Bank Eurasian Regional Centre (ERC) in the Russian Federation, the Government of the Russian Federation has agreed to transfer special purpose contribution to the Bank for reimbursement of rent payment of ERC office premises and one time supply of furniture, equipment, and other facilities for the operation of ERC. Details of the cash contribution received from the Russian Federation as at December 31, 2021 and 2020 are set out in Note 31.

Details of the paid-in capital receivables as at December 31, 2021 and December 31, 2020 are set out in Note 21, and unwinding of interest on paid-in capital receivables for the year ended December 31, 2021 and the year ended December 31, 2020 are set out in the statement of profit or loss and other comprehensive income.

THE NEW DEVELOPMENT BANK

35. 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, 2021:

<u>Name</u>	<u>Country</u>	<u>Position</u>
Marcos Prado Troyjo	Brazil	President
Vladimir Kazbekov	Russia	Vice President; Chief Operating Officer (with effect from July 7, 2021) Vice President; Chief Administrative Officer (up to July 6, 2021)
Anil Kishora	India	Vice President; Chief Risk Officer
Qiangwu Zhou	China	Vice President; Chief Administrative Officer (with effect from July 7, 2021)
Xian Zhu	China	Vice President; Chief Operating Officer (up to July 6, 2021)
Leslie Warren Maasdorp	South Africa	Vice President; Chief Financial Officer

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

	Year ended December <u>31, 2021</u> USD million	Year ended December <u>31, 2020</u> USD million
Salary and allowance	3	3
Staff Retirement Plan	_*	_*
Post-Retirement Insurance Plan	_*	_*
Other short-term benefits	<u>1</u>	<u>1</u>
Total	<u>4</u>	<u>4</u>

* Less than USD half of a million

36. SEGMENT INFORMATION

For the year ended December 31, 2021, the Bank has a single reportable segment and evaluates the financial performance of the Bank as a whole.

37. 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, 2021, the NDB-PPF had received contributions amounting to USD 7 million (December 31, 2020: USD 7 million). The Bank has not earned any income from NDB-PPF for the year ended December 31, 2021 and 2020.

38. RECLASSIFICATION OF COMPARATIVE FIGURES

For the year ended December 31, 2020, USD 10 million realised losses on derivatives as hedging instruments were included in "adjustment for" in operating activities. The Bank has presented proceeds from settlement on derivatives and payment of settlement on derivatives separately in operating activities, investing activities and financing activities on the basis of the classification of the cash flows arising from the transaction to which it is linked for the year ended December 31, 2021. As a result, the figures for the year ended December 31, 2020 have been amended in the statement of cash flows for the year ended December 31, 2021 to conform with current year presentation. Accordingly, USD 344 million and USD 356 million, less than USD half of a million and less than USD half of a million, USD 26 million and USD 24 million have been reclassified and presented as proceeds from settlement on derivatives and payment of settlement on derivatives in the net cash from operating activities, investing activities and financing activities respectively for the year ended December 31, 2020 in the statement of cash flows for the year ended December 31, 2021.

These reclassifications do not have a material impact on the information in the Bank's statement of profit or loss and other comprehensive income and statement of cash flows.

39. SUBSEQUENT EVENTS

In January, 2022, the Bank issued a three-year RMB bond with par value of RMB 3 billion with the maturity date on January 24, 2025. The interest is paid by the Bank annually with fixed coupon rate of 2.45%.

Subsequent to December 31, 2021, USD 60 million of paid-in capital was received from various members and USD 8 million was overdue from a founding member.

The situation in Eastern Europe may weigh on global growth further through elevated commodity prices and inflation, volatilities in currencies and capital flows, as well as decelerated domestic activities and international trade. The Bank is closely monitoring the developments and assessing the impact on the Bank. There was no material effect on the statement of financial position as at December 31, 2021 and the statement of profit or loss and other comprehensive income of the Bank for the year then ended. Subsequent to December 31, 2021, the financial position and performance of the Bank is expected to be adversely affected on account of an increase in expected credit losses with respect to exposure to Russia as shown in the disclosures on concentration risk in note 5. As at May 19, 2022, the Bank is not able to estimate the quantum of the financial effect.

40. APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements were approved by the Board of Governors and authorised for issuance on May 19, 2022.

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