



Since its inception, NDB has built a robust and diversified portfolio of projects of almost USD 25 billion. Its diversity is reflected in different types of operation, currency denominations and geographic distribution of projects. Portfolio growth has been underpinned by a consistent funding strategy focusing on diversity, adaptability to international markets and sustainability of its instruments. Regional offices also proved instrumental for portfolio growth. Going forward, the Bank will further enhance the sophistication and soundness of its operational performance and financial activities to support complex and innovative projects.

Chapter 5

Increasing sophistication and soundness

Operational performance and projects by key areas of operation

Portfolio overview

A key component of the NDB's value proposition is the commitment to provide financing in local currencies, which accounted for 20% of the end-2020 portfolio.

In 2020, despite the challenging operating environment brought by the COVID-19 pandemic, NDB has approved 19 projects totalling an amount of USD 10.3 billion. This raised cumulative approvals to 72 operations totalling USD 25.7 billion in the period 2015-2020, or 67 operations totalling USD 24.4 billion net of cancellations and repayments.

The total amount includes the six COVID-19 related approved projects. The Bank also increased its key areas of operation to nine, from seven in 2019 and expanded its impact to 12 out of 17 SDGs, from 11 in the previous year. Last year, NDB was able to significantly step up the pace of its disbursements, which increased by 153% excluding COVID-19 emergency loans and increased five-fold including them.

The complete list of NDB's approved projects can be found in the Annexe.

During the challenging and transitional year of 2020, the continuous growth and diversification of the Bank's portfolio has benefited from a dedicated team that worked to provide swift answers to urgent problems. The Bank was able to continuously deliver on its targets without interruptions due to NDB's use of cloud-based solutions. The impossibility of carrying out fact-finding and appraisal missions in most cases was compensated by more intensive interactions with regional offices and partners. Efforts on improving our capabilities to deal with more complex issues and the private sector have culminated in the restructuring of the Operations area, which will now count on three specific and separate Departments: Public Sector, Private Sector/Non-Sovereign Transactions and Project Portfolio Management.

NDB's portfolio expansion in the past years has taken place in tandem with the diversification of approvals by the types of operation, types of currency and geographic distribution.

In 2020, due to the sizeable COVID-19 emergency loans to member countries, the trend towards increasing the share of non-sovereign operations was reversed. They accounted for 7% of total approvals, including equity investments, while sovereign or sovereign-guaranteed operations accounted for 93%. The cumulative share of sovereign or sovereign-guaranteed operations approved in the period

26 Total number of approvals minus the number of full cancellations and full repayments.

27 Total amount of approvals minus the amount of full and partial cancellations and full repayments.

28 Disbursements for the period of 2015-2020 net of repayments totalled USD 6,609 million.

Approvals and disbursements

USD million	2016	2017	2018	2019	2020	2016-2020
Total approvals	1,544	1,851	4,697	7,192	10,277	25,703
Number of approved projects	8	6	17	22	19	72
Number of full cancellations			1	1	2	4
Number of full repayments					1	1
Amount of cancellations/repayments			250	69	949	1,268
End-2020 portfolio of projects (number of projects)²⁶						67
End-2020 portfolio of projects (USD million)²⁷						24,435
Disbursements	–	24	601	915	5,383	6,931 ²⁸
Disbursements excluding COVID-19 emergency assistance	–	24	601	915	2,313	3,861

Approvals by type of operation

USD million	2016		2017		2018		2019		2020		2016-2020	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Sovereign loans	1,144	5	1,851	6	3,697	11	5,594	16	9,554	14	21,934	54
Non-sovereign loans	400	3	–	–	1,000	4	1,498	5	623	4	3,569	16
Equity investments	–	–	–	–	–	–	100	1	100	1	200	2

2016-2020 was 85%, while non-sovereign operations totalled 15%, including about 1% of equity investments.

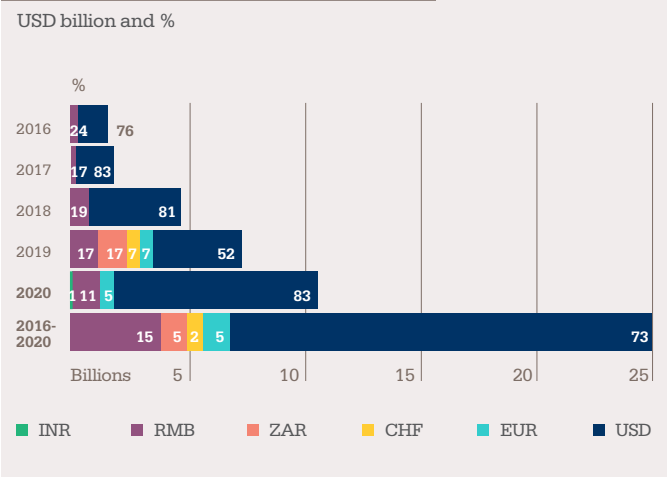
In 2020, the Bank approved its second investment in an equity fund, in India, following a first transaction in 2019, in Brazil. Although sovereign or sovereign-guaranteed loans are expected to continue to represent the largest part of the portfolio, non-sovereign operations, including loans to the private sector, state-owned enterprises, national financial institutions, international organisations and equity investments will be undertaken in a gradual and increasing way. The Bank is also preparing itself to support more sophisticated and tailor-made financing structures, such as project finance, guarantees and syndicated loans.

A key component of the NDB's value proposition is the commitment to provide financing in local currencies, which accounted for 20% of the end-2020 portfolio. Local currency operations allow for a significant reduction of risks associated with currency mismatches, especially for long-term infrastructure projects that do not generate hard currency revenues. Following inaugural financing operations in RMB in 2016 and ZAR in 2019, an equity investment of USD 100 million equivalent was approved in 2020 to be disbursed for investment in an INR-denominated fund of funds. The Bank will also pursue local currency operations in other member countries in accordance with its funding, risk policies and market conditions, and members' demands. In 2020, the Bank also approved tailor-made facilities in other currencies to satisfy its clients' needs.

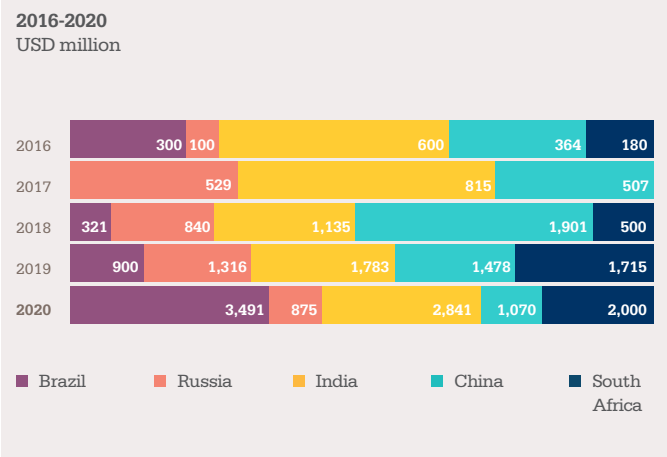
Approvals by currency were less diversified compared to the previous year, in accordance with member countries' demands and the Bank's continuous risk assessment of its funding and portfolio. The approval of a COVID-19 Emergency Loan to China in RMB explains the share of RMB loans. The response to the pandemic contributed to lower-than-expected approvals in other local currencies, which should be resumed gradually in a post-COVID scenario.

In 2020, NDB continued to improve the balance of its operations across member countries. By the end of the past year, no member country had a share of total approvals of less than 14%. The trend is only partly explained by COVID-related operations. Portfolio geographical distribution benefited significantly from the scaling up in operations following the opening of the regional centres in South Africa (2017), Brazil (2019) and, more recently, Russia (2020).

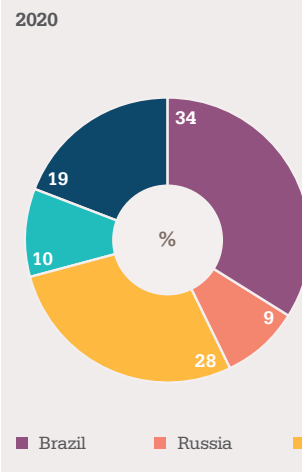
Yearly approvals and end-of-period portfolio by currency²⁹



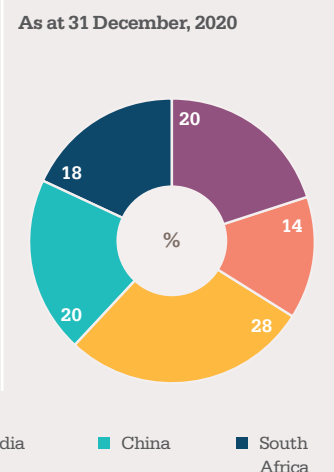
Evolution of approvals by country



Approvals by country



Portfolio by country



²⁹ Calculations are based on end-of-period exchange rates.

Regional offices

In 2020, NDB established the Eurasian Regional Centre, in Moscow. Together with the Americas Regional Office, established in São Paulo in 2019 with a sub-office in Brasília, and the Africa Regional Centre, established in Johannesburg in 2017, the new offices expanded NDB's on-the-ground presence, allowing for improved performance in originating, preparing and implementing projects.

The Bank's global network of offices, soon to be complemented by a regional office in India, allows for an enhanced engagement with clients and a better understanding of local market conditions, thus stepping up NDB's capacity to gradually build a more sophisticated portfolio of projects. The offices have also an important role in elevating the profile of the Bank and communicating with national and local governments, the private sector and civil society. They are part of NDB's effort to increase the complexity of its operations and also to help create a network of business and development opportunities that may leverage the synergies of member countries through knowledge and information sharing.



■ Existing
■ Planned



Project Preparation Fund³⁰

The Project Preparation Fund (PPF) was established by NDB's Board of Governors in January 2017 as a multi-donor fund designed to support preparation of bankable projects through the provision of technical assistance (TA). To date, the PPF has received total contributions of USD 7 million, through agreements signed with China (USD 4.0 million) and Russia (USD 1.5 million), in 2017, and India (USD 1.5 million), in 2018.

In 2020, NDB's BoD approved a USD 0.4 million PPF TA project to support the upgrade of Kaliningrad Sea Port, taking the total amount of approvals under the PPF to USD 0.8 million.³¹ In 2019, NDB also approved another PPF TA facility to support the preparation of one transport infrastructure project in Russia. These two TA facilities will fund consulting services for key project preparation components, such as environmental and social assessment, as well as technical, financial and economic feasibility studies, which are required to bring these projects up to the stage where they can be considered by external financiers.

Providing support for project preparation and helping member countries develop quality projects that can attract financing from NDB and other financiers is an essential component of the Bank's mandate. Going forward, the Bank intends to conduct a review of the PPF to make it more attractive and effective in helping to bridge the large preparation needs of clients in member countries.



3

Regional offices



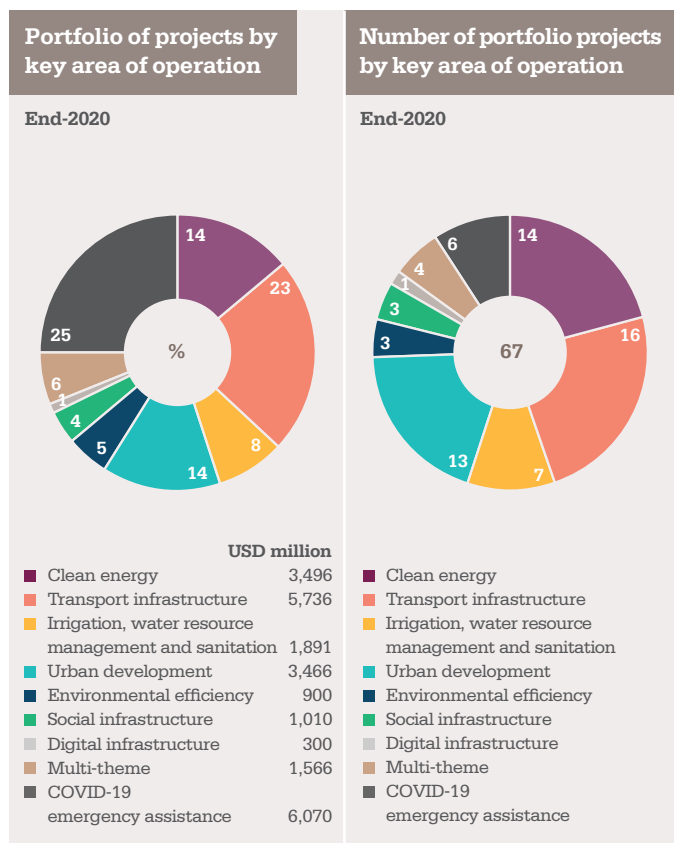
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Sub-office established

³⁰ PPF Financial Statements at December 31, 2020 are included in the final part of this report.

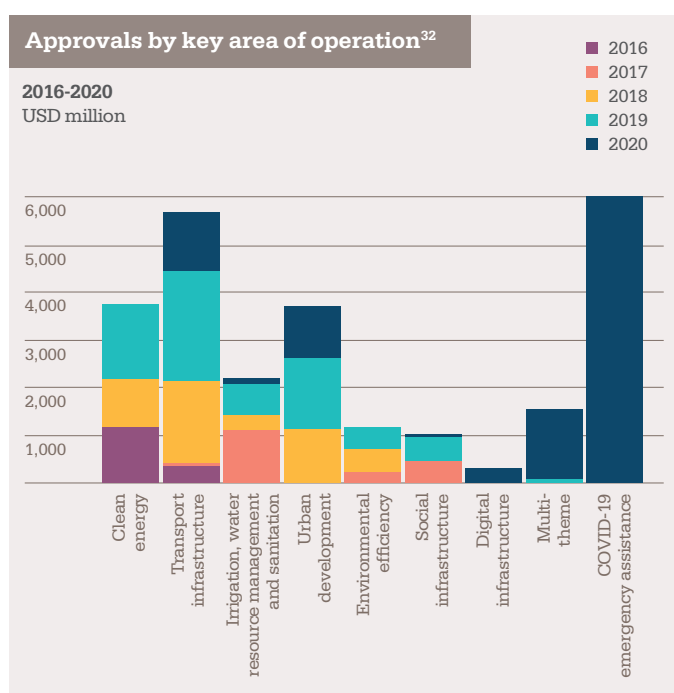
³¹ Excludes the USD 0.3 million TA facility for the Mizoram Hydro Project in India, which was approved in 2019 and cancelled in 2020.

Key areas of operation 2016-2020



Within the vast space of infrastructure and sustainable development, NDB has been diversifying its portfolio across strategically selected key areas of operations. While these areas fall within the Bank's mandate, they are also closely aligned with the 2030 Agenda, as discussed in the section Development Impact of NDB's operations. In 2020, two areas were added, namely digital infrastructure and COVID-19 emergency assistance.

As discussed in Chapters 2 and 3, the magnitude of the loans approved in 2020 were in line with the needs of member countries to respond to the short-term impacts of the pandemic and to provide them with early assistance towards economic recovery. Considering the cumulative distribution of the NDB's portfolio by area in the period 2016-2020, COVID-related approvals represented almost 25% of total approvals, followed by transport infrastructure, clean energy and urban infrastructure. In 2020, despite the pandemic, NDB approved projects in seven out of the nine key operational areas, including in multi-theme projects, which encompass more than one area.



³² Yearly approvals include canceled or fully repaid projects not computed in end-2020 portfolio.



Clean energy

SDG alignment

Primary SDG alignment



Direct contribution to additional SDGs

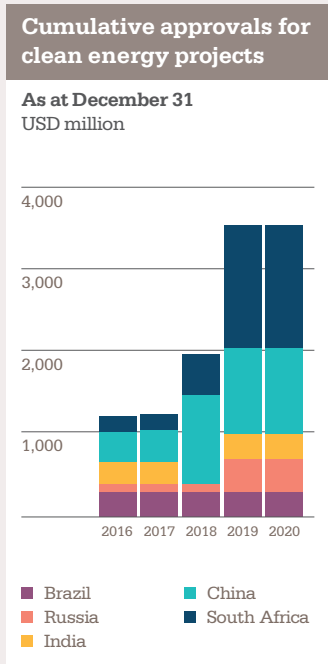


Clean energy has been a clear focus of NDB's operations since the inaugural approvals in 2016. In the period 2016-2020, the Bank approved 15 clean energy projects. At end-2020 the Bank's portfolio included 14 projects totalling USD 3.5 billion (14% of the portfolio), which are expected to increase renewable energy capacity by 2,800 MW across member countries.

As envisaged by SDG 7, addressing the clean energy challenge entails ensuring access to affordable, reliable, sustainable and modern energy for all. It is also one of the core aspects of the energy transition and the commitments by United Nations' members in the Paris Agreement. NDB has always placed an emphasis on innovation aspects of clean energy and its portfolio

includes many renewable energy projects, from developing offshore wind power and distributed solar energy to battery energy storage. Other projects address grid-upgrading and support power sector restructuring. Projects in this key area may contribute additionally to SDG 9, SDG 11, SDG 12 and SDG 13.

In 2020, there were no approvals in the clean energy area. The Bank's portfolio of projects continued to be implemented, including through on-lending and parallel financing with other international and national development finance institutions. Also, the COVID-19 pandemic has highlighted the importance of virtual networks and digital connectivity, which require stepping up efforts towards energy efficiency and the sustainability of power sectors. NDB continues to be fully committed to the financing of clean energy projects as one of the key areas of sustainable infrastructure in member countries.





Transport Infrastructure

SDG alignment

Primary SDG alignment



Direct contribution to additional SDGs



Locomotive Fleet Renewal Programme, Russia

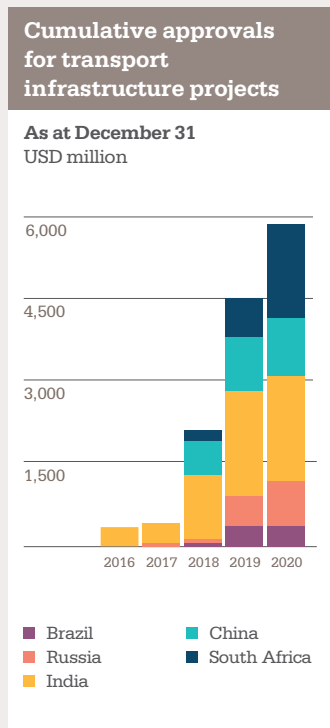
Transport infrastructure is the operational key area with the largest number of approved projects in the NDB's portfolio, which is also true for the value of approvals excluding COVID-related projects. In the period 2016-2020 the Bank approved 17 projects for transport infrastructure. At end-2020, the Bank's portfolio included 16 projects totalling USD 5.7 billion (24% of the portfolio), which are expected to contribute to the construction of 15,300 km of new or upgraded roads and 820 new or upgraded bridges, among other outputs.

In 2020, NDB approved three projects in the transport infrastructure totalling USD 1.2 billion, two in Russia and one in South Africa.

A non-sovereign loan of EUR 100 million was approved to the Black Sea Trade and Development Bank to support the project Russian Maritime Support Programme. Its primary focus is the development of trade-enabling infrastructure through on-lending to port owners and operators, as well as to maritime companies. A non-sovereign loan of USD 100 million was approved to the Eurasian Development Bank for the Tolls Roads Programme in Russia. It aims to improve transport connectivity in Russia through the expansion of toll roads network, also through on-lending to sub-projects typically based on PPP arrangement.

A sovereign loan of USD 1 billion was extended to South Africa in support of the programme Non-Toll Roads Management. It aims at maintaining and improving critical road infrastructure, thus contributing to lower transportation costs and increase the competitiveness of the economy.

This operational area has diversified towards all member countries since 2018. SDG 9 emphasises the importance of building resilient infrastructure, promoting inclusive and sustainable industrialisation and fostering innovation. Transport infrastructure projects in the Bank's portfolio also contribute to SDG 11 and SDG 3. Many projects address improvements in rural roads, which have a significant impact in contributing to better access for rural populations to education and health services, but also to ensure their connectivity to urban markets and consumers.





Irrigation, water resource management and sanitation

SDG alignment

Primary SDG alignment



Direct contribution to additional SDGs



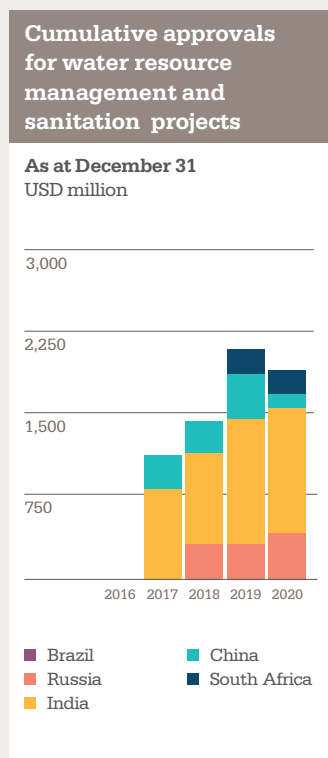
The area of irrigation, water resource management and sanitation has featured in the Bank's portfolio since 2017. In the period 2016-2020, NDB approved seven projects in the water and sanitation area totalling USD 1.9 billion, which represented 8% of the portfolio at end-2020 and are expected to increase drinking water supply capacity by 159,000 m³/day and sewage treatment capacity by 535,000 m³/day.

In NDB's portfolio, the key area of water and sanitation has a primary alignment

with SDG 6 on ensuring availability and sustainable management of water and sanitation for all and SDG 2 on ending hunger, achieving food security and improving nutrition and promoting sustainable agriculture. Projects in this key area make an additional contribution to SDG 3, SDG 11 and SDG 13. Projects in this area were approved to four member countries and have usually aimed at local or regional water supply systems.

In 2020, NDB approved one project in the area of irrigation, water resource management and sanitation in the amount of USD 100 million.

A non-sovereign loan of USD 100 million was approved to the Eurasian Development Bank to the Water Supply and Sanitation Programme in Russia. It aims to support the modernization and reconstruction of water supply and sanitation facilities in a number of Russian cities, which is expected to contribute to improved environmental protection.





Urban development

SDG alignment

Primary SDG alignment



Direct contribution to additional SDGs



The operational key area of urban development entered NDB's portfolio in 2018 and has attracted strong interest from member countries. During 2016-2020, NDB approved 14 urban development projects totalling USD 3.8 billion. At end-2020, the Bank's portfolio included 13 projects that represented 14% of the portfolio and are expected to benefit 40 cities in four member countries and build 230 km of metro or tram rails, among other outputs.

In NDB's portfolio, the key area of urban development has a primary alignment with SDG 11 on making cities and human settlements inclusive, safe, resilient and sustainable. Other SDGs directly impacted by urban development projects in NDB's portfolio are SDG 6, SDG 8, SDG 9 and SDG 13. NDB's projects have concentrated on the financing of urban mobility, notably the construction of metro and tram lines and other rapid transit systems. There are also projects aimed at enhancing urban infrastructure and protecting cultural heritage.

In 2020, NDB approved four urban development projects totalling USD 1.1 billion in three member countries.

A sovereign loan of EUR 205 million was approved to Russia to support the project Small Historic Cities Development Phase II.

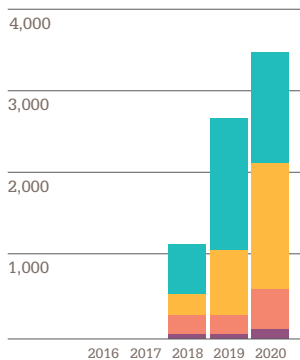
It aims to promote the preservation and development of cultural heritage in eight small Russian cities in order to drive tourism and improve local economies.

Two sovereign loans were approved to India with a focus on urban mobility: a loan of USD 241 million was approved to support the Mumbai Metro Rail II Project and a loan of USD 500 million was approved to the project Delhi-Ghaziabad-Meerut Regional Rapid Transit System. The latter will be jointly financed by the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB). It will aim to develop a regional public transport system to reduce congestion, which will reduce travel time, improve safety conditions and generate more economic opportunities for the local population. The second phase of the Mumbai Metro Rail will contribute to the implementation of Line 6, which will integrate western and eastern suburbs of the city, thus reducing road congestion, enhancing safety and offering a better quality of life to Mumbai residents.

A sovereign-guaranteed loan of USD 75 million was approved to the Municipality of Curitiba in Brazil to support the Bus Rapid Transit (BRT) Rideability Improvement Project. Curitiba's BRT is an example of efficient transportation that has been continuously improved. The project aims to enhance the quality of the BRT thus encouraging the use of public transportation at lower costs and reduced time, contributing to reduce congestion and emissions.

Cumulative approvals for urban development projects

As at December 31
USD million



■ Brazil
 ■ China
■ Russia
 ■ South Africa
■ India

EUR 205 m

Sovereign loan approved to Russia to support the project Small Historic Cities Development Phase II

USD 241 m

Approved to support the Mumbai Metro Rail II project in India





Environmental efficiency

SDG alignment

Primary SDG alignment



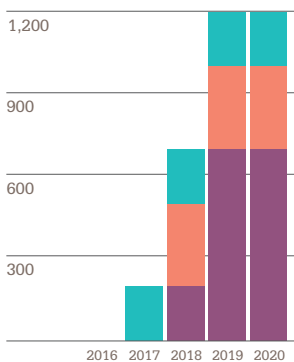
Direct contribution to additional SDGs



SIBUR Sustainable Infrastructure & Environmental Safety Project, Russia

Cumulative approvals for environmental efficiency projects

As at December 31
USD million



Legend: Brazil (purple), China (teal), Russia (orange), South Africa (dark blue), India (yellow)

The operational key area of environmental efficiency entered NDB's portfolio in 2017 and is aligned with NDB's commitment to facilitate member countries' economic transition to more sustainable and responsible patterns of production and consumption. It encompasses projects with innovative and environmental efficient technologies applied either in new economic activities or as a means to redress effects of past activities on the environment.

During 2016-2020, NDB approved four environmental efficiency projects totalling USD 1.2 billion. In 2020, there were no approvals in this operational key area.

Primary alignment of environmental efficiency projects in NDB's portfolio with SDG 9 on industry, innovation and infrastructure and SDG 13 on urgent climate action is complemented to contributions to SDG 6 and SDG 12. NDB is committed to continuing to support its member countries in upgrading their technologies to promote sustainable development.



Social infrastructure

SDG alignment

Primary SDG alignment

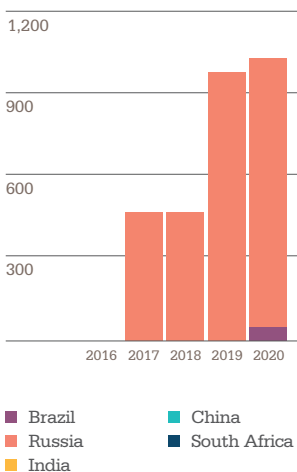


Direct contribution to additional SDGs



Cumulative approvals for social infrastructure projects

As at December 31
USD million



NDB expanded its operations into the area of social infrastructure in 2017, when the Bank approved a judicial system support project in Russia. In the period 2016-2020, NDB approved three social infrastructure projects totalling USD 1.0 billion to two member countries (4% of the portfolio at end-2020). Among other benefits, the projects are expected to support building or upgrading 58 schools.

Social infrastructure projects in NDB's portfolio are primarily aligned to SDG 4 on ensuring inclusive and equitable quality

education and promoting lifelong learning opportunities for all and SDG 16 on peace, justice and strong institutions. They also contribute to SDG 8 and SDG 11.

In 2020, NDB approved a loan of USD 50 million to social infrastructure in Brazil.

A sovereign-guaranteed loan to the Municipality of Teresina in Brazil was approved to support the Teresina Educational Infrastructure Loan. It aims to enhance school infrastructure to increase the number of students attending full-time elementary schools and to enhance safety conditions for students. Expected outcomes include the construction of new schools, retrofitting of existing schools and support for the remodelling of Teresina's educational programme.



Digital infrastructure

SDG alignment

Primary SDG alignment

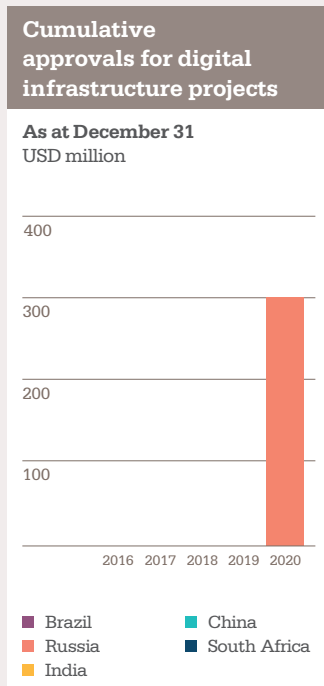


The area of digital infrastructure has entered NDB's portfolio in 2020. A non-sovereign loan of USD 300 million was approved to support the project Cellular Network and Cloud Services Expansion in Russia through the Mobile TeleSystems Public Joint Stock Company. It aims to improve mobile network penetration across Russia and to cloud-based infrastructure.

Expected development impacts include not only greater broadband access to Russian households but also improving connectivity of small and rural cities across the entire country and enhancing data security and reducing costs for enterprises as the result of the migration to cloud-based services.

A primary alignment was identified with SDG 9 on building resilient infrastructure and promoting inclusive, and sustainable industrialisation and fostering innovation.

Going forward, NDB is fully committed to support member countries' demands related to investments in the digital economy and related fields embedded within infrastructure and sustainable development. The interlinkages between the digital infrastructure and traditional infrastructure are an important part of the technological landscape. But the vast scope and fast pace of the digital economy and its relationships to the Industry 4.0 and to the future of work will demand more sophisticated development policies and business models to thrive. Understanding those interconnections and leveraging lessons learned and common challenges are an important part of NDB's commitment in the next years.





Multi-theme

SDG alignment

Primary SDG alignment



The operational key area of multi-theme projects entered NDB's portfolio in 2019 and involves mostly equity investments or on-lending projects that are in line with NDB's mandate. It allows for an expansion of the Bank's outreach to national development and private financial institutions and supports projects with innovative business models that encourage capital markets participation in infrastructure projects. In the period 2016-2020, NDB has approved four multi-theme projects totalling USD 1.6 billion.

While the primary alignment of multi-theme projects involves SDG 9 on industry, innovation and infrastructure, multiple linkages with other key areas will allow for other possible SDG alignments and expected development impacts as the projects evolve.

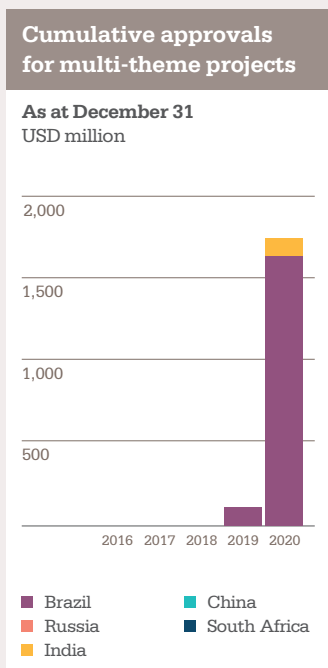
In 2020, NDB approved three multi-theme projects totalling 1.5 billion in two member countries.

A sovereign-guaranteed loan of EUR 135 million was approved to Brazil's Banco Regional do Desenvolvimento do Extremo Sul (BRDE) to the BRDE's Urban, Rural and Social Infrastructure Programme. BRDE will on-lend the resources to sub-projects in small municipalities without access to international financing and companies, including to support their participation

in infrastructure PPPs. The project also aims to allow for a significant increase in BRDE's portfolio adherence to SDGs.

A sovereign-guaranteed loan of USD 1.2 billion was approved to BNDES-NDB Sustainable Infrastructure Project, to support BNDES on-lending to public and private infrastructure projects in the following sectors: renewable energy and energy efficiency, urban mobility, water and sanitation, transport and logistics, information and communication technology and social infrastructure. The project will emphasise identification and promotion of innovation in the selected sub-projects, which is expected to enhance BNDES' and NDB's capacity to integrate innovation in its development projects, both with regard to technical and financial characteristics of the projects, as well as their implementation and impacts.

The Bank approved an equity investment of up to INR 7.3 billion (USD 100 million) in the National Investment and Infrastructure Fund Limited of India to support its investment in the Fund of Funds I (FoF-I), which will invest in portfolio funds as the anchor or in several private equity funds with soundtrack record, distinctive advantages and experienced fund managers. Investments shall focus on green infrastructure, social infrastructure, affordable housing, infrastructure services, agribusiness, financial services and other activities with a focus on job creation and supporting small and medium enterprises. Among other impacts, the project is expected to contribute to support private capital investments in India infrastructure.



USD 1.6 bn

Total of four multi-theme projects approved by NDB in the period 2015-2020

USD 1.2 bn

Sovereign-guaranteed loan was approved to the BNDES-NDB Sustainable Infrastructure Project to support BNDES on-lending to public and private infrastructure projects



COVID-19 emergency assistance SDG alignment

Primary SDG alignment



Direct contribution
to additional SDGs



As discussed in Chapter 2, in 2020, NDB's response to the COVID-19 pandemic in support of member countries demands entailed swift policy, operational and financial adaptations under the commitment of providing a total of USD 10 billion for the Emergency Assistance Programme and its related fast-track facility. Details on the six loans approved by NDB in 2020 totalling USD 6 billion for combating COVID-19 consequences and supporting economic recovery were presented in Chapter 2. At end-2020, COVID-19 related projects represented 25% of NDB portfolio.

Fighting the pandemic and helping mitigate and overcome its global health, humanitarian and economic consequences has also expanded the areas of operations of NDB, as discussed in Chapter 3, which incorporated SDG 1 of ending poverty in all its forms everywhere. Part of the Bank's COVID-related loans were used to cover current expenditures rather than the usual capital expenditures in MDB projects, including income transfers to strengthen social safety nets. SDG 3, ensuring good

health and well-being, is also a primary alignment of the COVID-19 emergency assistance programme, together with SDG 8 on promoting growth and employment. In accordance with member countries' demands, NDB's emergency assistance funds will also be used to increase resilience of economic activity through specific fiscal support to help ease the burden on SMEs, which are usually the largest employers in most countries.

NDB's COVID-19 emergency assistance also contributes, through the specific design of its projects, to SDG 6, SDG 9 and SDG 11.

Given the magnitude of the health and economic impacts of the pandemic and the complexity of its effects, which cannot be fully foreseen at the time of writing, nuances may arise during project implementation. In Brazil, for example, the large-scale Emergency Aid Programme of the federal government, partially supported by loans from NDB and other MDBs, has promoted the digital inclusion of millions of families in the national single registry of social programmes and in the mobile banking system. Of the 68 million people who received emergency aid, 40 million did not have a bank account before. Vulnerable groups now are part of the social safety nets through their social bank account, without fees and in a mobile environment.



Read more

Response to COVID-19

Read more about NDB's response to COVID-19

See page 17-22

Treasury activities and risk management

Funding strategy and activities and credit ratings

NDB's two USD bond issues in 2020 in international capital markets constituted milestones for the consolidation of NDB's funding strategy and its gradual diversification.

Funding strategy

NDB's funding strategy aims to ensure that sufficient resources are available to meet the Bank's liquidity requirements, while minimising borrowing costs through cost-effective issuances. The funding strategy is primarily driven by the need to support NDB's growing loan portfolio, while taking into consideration the dynamics of global markets.

NDB's funding strategy includes the following main key aspects:

- Diversification of funding by instrument, currency, tenor and type of interest rate;
- Access to the international capital markets;
- Domestic borrowing programmes in BRICS countries;
- Regular issuances;
- Benchmark-size transactions;
- Focus on green, social and sustainability debt instruments;
- Alignment with the United Nations 2030 Agenda for Sustainable Development.

NDB utilises and intends to develop its diversified portfolio of funding instruments in hard currencies, local currencies of its member countries and other currencies based on the parameters of its loan portfolio, investor demand and market dynamics.

The Bank aims to raise funds in the international markets and the domestic markets of its member countries through public and private transactions with due regard to appropriate hedging mechanisms within its risk management policies and frameworks.

Based on its strong credit ratings, NDB has been able to meet its funding needs by establishing programmes in international capital markets and in domestic markets of its member countries. The Bank has established the following borrowing programmes in international capital markets:

- USD 50 billion euro medium-term note programme;
- USD 8 billion euro-commercial paper programme.

Local currency financing is a key component of NDB's value proposition to its clients, as it mitigates risks faced by borrowers and at the same time supports the deepening of financial markets of its member countries. The Bank has established the following borrowing programmes for the purposes of raising funds in the currencies of its member countries in domestic markets and international markets:

- RUB 100 billion domestic bond programme in Russia;
- RMB 20 billion domestic bond programme in China;
- ZAR 10 billion domestic bond programme in South Africa;
- USD 50 billion euro medium-term note programme³³ (allows for offshore issuance in BRL, RUB, INR, RMB and ZAR).

At the end of 2020, the total outstanding amount of bonds issued by NDB across both international and domestic markets reached USD 5.5 billion and the outstanding amount of euro-commercial papers issued totalled USD 2.8 billion.

³³ USD 50 billion euro medium-term note program was established for fundraising both in hard currencies (USD, EUR, GBP, etc.) in the international markets and domestic currencies in the international markets.

Funding activities in 2020

In April 2020, the Bank issued a RMB 5 billion 3-year Coronavirus Combating Bond in China. The transaction attracted interest from high-quality domestic and international investors and it had successful results, notably:

- Final order book in excess of RMB 15 billion, more than three times oversubscribed;
- Bond priced at the lower end of the announced pricing range;
- Largest-ever RMB-denominated bond issued by an MDB in China;
- First RMB-denominated Coronavirus Combating Bond issued by a MDB in China;
- Distribution of investors by region: China Mainland – 41%, EMEA – 45%, APAC (excl. China Mainland) – 14%.
- Distribution by investor type: Central Banks/Official Institutions – 54%, Banks – 45%, Securities Companies – 1%.

In July 2020, NDB placed a RMB 2 billion bond in China, with a maturity of five years and a coupon rate of 3%. The final book size closed in excess of RMB 4 billion, representing an oversubscription of 2.1 times.

In October 2020, the Bank registered its second RMB bond programme in China for an amount of RMB 20 billion. NDB places special emphasis on the development impact of its operations, with a commitment to contribute to the achievement of the SDGs. The Bank aims to be the pilot issuer to test the UNDP Practice Assurance Standards for SDG Bonds and UNDP China’s SDG Finance Taxonomy under the approved RMB bond programme in China.

With the described bond issuances in 2020, NDB established itself as regular issuer in China and brought the total outstanding amount of bonds to RMB 13 billion.

In June 2020, the Bank issued its first USD 1.5 billion, 3-year COVID Response Bond in the international markets. It represented NDB’s inaugural USD benchmark in the international markets. The net proceeds of the bond issue are being used to finance sustainable development activities, including emergency assistance loans.

Transaction highlights were:

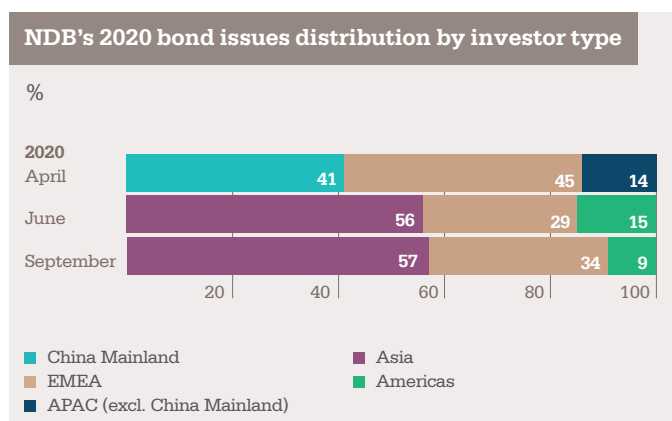
- NDB became the first MDB to execute its debut placement in the international markets in a fully virtual format;
- Largest debut USD transaction under Reg S format since 2011;
- Exceptional support from high-quality investors, with strong participation from central banks and official institutions, which represented 75% of allocations;
- Distribution of investors by region: Asia – 56%, EMEA – 29%, Americas – 15%;
- Robust investor demand allowed NDB to tighten the pricing by 7bps as compared to the upper limit of initial price estimates and to achieve a coupon rate of 0.625%.

In June 2020, the Bank increased the size of its ECP programme from USD 2 billion to USD 8 billion. This aligned with increasing investor demand and the Bank’s growing liquidity needs in light of the expansion of NDB’s lending activities. The Bank gained additional flexibility and headroom for the Treasury Department to improve access to short-term liquidity.

Funding strategy

NDB’s funding strategy includes the following main key aspects:

- Diversification of funding by instrument, currency, tenor and type of interest rate;
- Access to the international capital markets;
- Domestic borrowing programmes in BRICS countries;
- Regular issuances;
- Benchmark-size transactions;
- Focus on green, social and sustainability debt instruments;
- Alignment with the United Nations 2030 Agenda for Sustainable Development.



USD 8 bn

ECP programme increase from USD 2 bn in June 2020

USD 2 bn

Five-year COVID Response Bond issued in the international markets in September 2020

In September 2020, the Bank issued a USD 2 billion 5-year COVID Response Bond in the international markets. The net proceeds of the bond issuance are being used to finance sustainable development activities in the Bank's member countries, including COVID-related Emergency Assistance Programs. Some transaction highlights were:

- Notable demand from a geographically-diverse investor base and substantial participation from central banks and official institutions, which accounted for 66% of final allocations;
- Distribution of investors by region: Asia – 57%, EMEA – 34%, Americas – 9%;
- 5-year bond was issued at a spread of 37bps over mid-swaps with a fixed annual coupon of 0.625%.

NDB's two USD bond issues in 2020 in international capital markets constituted milestones for the consolidation of NDB's funding strategy and its gradual diversification.

In December 2020, NDB issued its first private placement under the EMTN programme in the amount of USD 50 million and maturity of two years. The issuance further diversifies the Bank's funding sources. To demonstrate NDB's strategic commitment to promoting sustainable development, the Bank aims to further develop its funding activities in green, social and sustainability area.

In May 2020, the Board of Directors of NDB approved the Sustainable Financing Policy Framework governing the issuances of green/social/sustainability debt

instruments. This was an important milestone for the Bank in strengthening its sustainability impact across funding activities. The Framework describes the Bank's principles in governing the use and management of the proceeds of green, social and sustainability bonds issued in international and domestic capital markets of its member states; the process for project selection and evaluation; and the reporting and disclosure rules related to respective debt instruments.

Credit ratings

NDB has AAA long-term international credit rating assigned by Japan Credit Rating Agency (JCR) and Analytical Credit Rating Agency (ACRA), as well as AA+ long-term international credit rating received from S&P Global Ratings (S&P) and Fitch Ratings (Fitch). The Bank has AAA domestic credit rating in China assigned by China Chengxin International Credit Rating (CCXI) and China Lianhe Credit Rating (Lianhe), and AAA (RU) national rating assigned by ACRA. The outlook of all the credit ratings assigned to the Bank is stable.

In January 2020, ACRA assigned to NDB a AAA international rating, outlook stable, and AAA (RU) national rating, outlook stable, for Russia. ACRA stated in its press release that the credit rating assigned to the Bank is primarily based on its very strong intrinsic financial strengths that stem from strong capital adequacy, a strong risk profile, strong liquidity and funding, as well as its systemic importance to the shareholder founding members that enhances the quality of commitments. 'The Bank's management quality, strategy and operational transparency are strong,' stated the rating agency.

NDB's credit ratings were confirmed by credit rating agencies along 2020.

In May 2020, the Board of Directors of NDB approved the Sustainable Financing Policy Framework governing the issuances of green/social/sustainability debt instruments.

NDB's credit ratings confirmations in 2020 by date and credit rating agency:

Month/2020	Credit rating agency	Credit rating
January/July/December (semi-annual credit rating reviews)	ACRA	AAA international long-term AAA (RU) domestic long-term
February	S&P	AAA international long-term A-1+ international short-term
July	Fitch	AA+ international long-term F1+ international short-term
July	CCXI and Lianhe	AAA domestic long-term
September	JCR	AAA international long-term

Treasury portfolio management

In 2020, the Bank greatly diversified its Treasury investment portfolio in terms of instruments, jurisdictions, currencies and counterparties.

Investments

Treasury investment portfolio expansion accompanied the Bank's growing treasury and funding activities in the international markets and the domestic markets of its member countries. In 2020, the Bank greatly diversified its Treasury investment portfolio in terms of instruments, jurisdictions, currencies and counterparties, while giving due regard to conservative risk management policies and guidelines.

The Bank's Treasury investment portfolio comprises of bonds, commercial papers, certificates of deposit, term deposits, money market funds and reverse repos with high international credit ratings in hard currencies and local currencies of the Bank's member countries.

In 2020, in order to strengthen its local currency footprint, NDB expanded investment activities in local currencies of its member countries, based on fully hedged instruments.

The primary strategy for the overall Treasury investment portfolio is to preserve the capital of the Bank, maintain high liquidity and minimise risks, while generating sufficient income.

Infrastructure development

The Bank achieved significant progress in building treasury infrastructure including opening corresponding accounts in hard currencies and in the local currencies of its member countries. It opened custodian accounts for investments in various fixed income instruments, on-boarded diversified list of counterparties for investments, hedging and funding, and enhanced the existing treasury management system for portfolio management.

In 2020, NDB started to execute RMB Repo/Reverse Repo transactions with market participants in China to increase flexibility for RMB liquidity management and enhance returns, while reducing credit risks. The Bank also became a participant of the FX interbank lending facility in China, which serves as a supplemental funding source for NDB. Moreover, the Bank developed its pricing framework for BRL-denominated loans, enabling the extension of financing in this currency in addition to USD, EUR, RMB and ZAR.

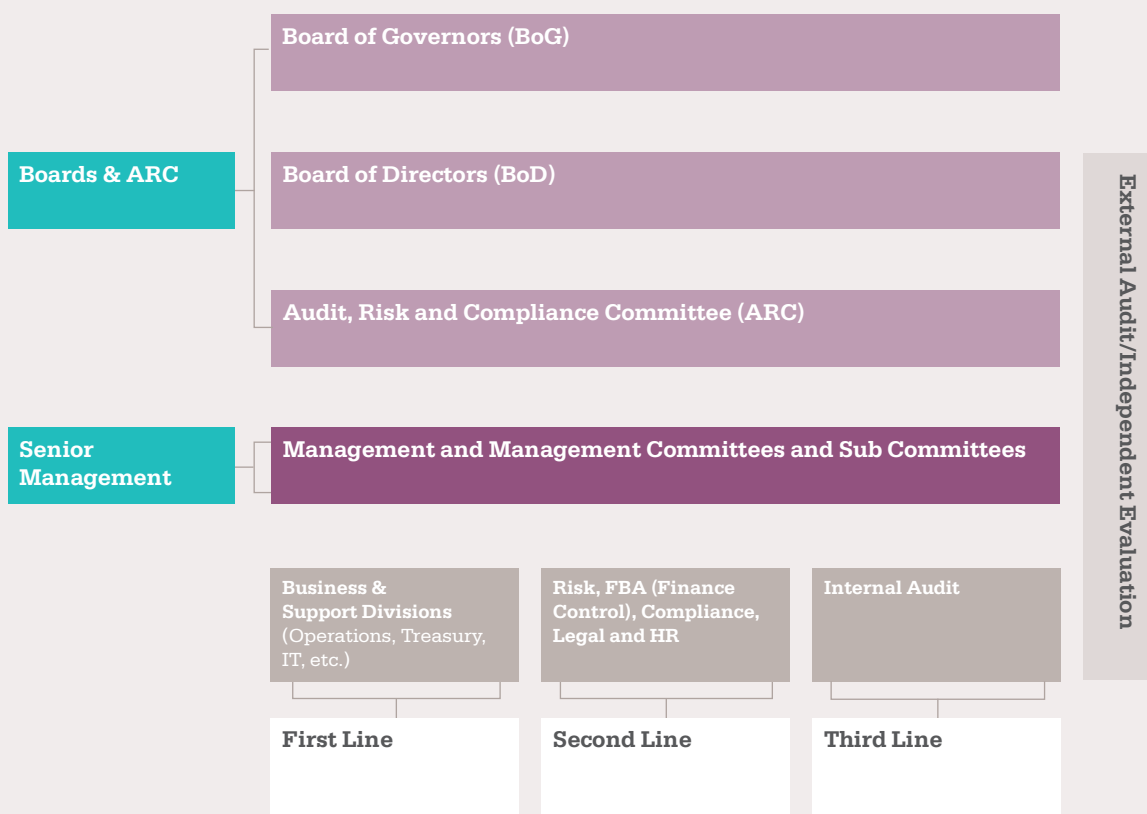
The Bank established LIBOR Transition Steering Committee and LIBOR Transition Working Group to ensure a smooth transition to post-LIBOR markets.



Risk management, integrity and accountability

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

The Three Lines of Defence Model³⁴



³⁴ In the new organisational structure approved by NDB BoD on December 15, 2020, the Compliance and Investigations Department has a direct reporting channel to the BoD and the existing Internal Audit function is to be headed at the Director-General level.

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

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

Functions within the second line of defence are fully independent and have oversight of the effectiveness of the first line of defence controls. Their role is to ensure that the Bank meets its business

The Bank's risk governance structure is based on a three lines of defence model. The roles and responsibilities, risk ownership and segregation of duties among NDB's functions have been clearly articulated as part of its overall risk governance architecture

objectives with the highest ethical and professional standards and within the applicable legal and internal rules. To further strengthen NDB's second line of defence, relevant teams of the Bank spearheaded a number of initiatives in 2020, as described below.

The Bank's **Risk Management Department** oversees risks related to NDB's activities, including credit, market, liquidity and operational risks, following leading practices that are aligned with highest international standards. In 2020, the Bank sophisticated loan monitoring process and credit risk assessment methodology for non-sovereign transactions, implemented the measurement of economic capital and consolidated a comprehensive risk reporting to Management and the Board. In addition, the Risk Management Department supported the Bank to ensure operational resilience of critical operations, services and systems during the onset of the COVID-19 pandemic. Comprehensive risk and capital adequacy metrics have supported the Bank's decision-making process, based on solid economic rationale and conservative risk profile.

NDB's legal team provides counsel to the BoD, Management and staff on legal aspects of NDB's policies, operations, finance and administration. In 2020, the legal team actively contributed to the development of NDB's key policies and guidelines and continued to promote, in consultation with other NDB departments and divisions, improvements in the legal documents and working procedures, in line with the Bank's commitment to operational precision and efficiency. In 2020, the Legal Department organised a series of legal seminars and events in and outside the Bank, including with legal departments of other MDBs, to share experience and build relationships for cooperation.

The Legal Department was awarded the 'In-house Team of the Year – International Company' in the prestigious China Law & Practice Awards 2020. This award recognises an array of the most influential and innovative in-house legal teams working in the China region.

The **Compliance and Investigations Department** at NDB has the responsibility of administering policies approved by the BoD in the areas of compliance management, anti-corruption, anti-fraud and anti-money laundering (AML), as well as the Code of Business Conduct and Ethics. To implement these policies, specific procedures for integrity due diligence, debarment and handling of whistleblowing complaints have been formulated. Bank-wide training and awareness programmes on these topics have been offered on a regular basis. In 2020, the Bank strengthened its collaboration with the OECD and

International Anti-Corruption Academy (IACA) in areas such as review of national integrity systems and anti-corruption capacity building. In the NDB's new organisational structure approved on December 15, 2020, the Compliance and Investigations Department has a direct reporting channel to the BoD.

The **Internal Audit Department (IAD)** is an independent assurance function and effectively serves as the third line of defence to assist the Bank to accomplish its objective by adopting a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, internal control and governance processes. This is carried out by conducting assurance and non-assurance engagements. The IAD also provides to the **Audit, Risk and Compliance (ARC) Committee** of the Board of Directors and to Management objective assurances, analyses, recommendations, advice and information concerning the activities of the Bank for the improvement of its control environment. During 2020, IAD conducted its audits in line with the approved Risk-Based Internal Audit Plan and in accordance with the Institute of Internal Auditors' International Professional Practices Framework (IPPF) using cloud-based audit management software. IAD continued to collaborate with internal audit functions of other MDBs for exchange of best practices.

The **external auditor**, which is appointed by the BoD, is responsible for conducting NDB's annual external audit. It provides its opinion on NDB's financial statements ensuring that they are free from material misstatement and prepared in accordance with the appropriate financial reporting framework, including the Project Preparation Fund. The external auditor provides an independent assurance to the BoG, BoD and Management.

Awards 2020

The Legal Division,
China Law & Practice
Awards 2020

- In-house Team of the Year
– International Company



NDB Management and staff are fully committed to enhancing the Bank's contributions to our member countries and the global development community by being New every day.



Mr. Marcos Troyjo
President



Financing of Renewable Energy Projects and Associated Transmission (BNDES), Brazil