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# NDB's 2020 Financial Statements

## Xiamen City, Fujian

NDB's Putian Pinghai Bay Offshore Wind Power Project will generate 873 million kWh per year of electricity to meet the rising power demand in Fujian province.

# Financial Statements' Analysis

This report should be read together with NDB's financial statements. The Bank undertakes no obligation to update any forward-looking statements.

## Section 1 Executive summary

### Financial highlights

In 2020, the Bank continued to deliver on its mandate to contribute to global growth and development of its member countries through addressing their core development needs in sectors that range from urban development to water sanitation, clean energy and the development of smart cities. NDB increased its end-2020 portfolio of projects to USD 24.4 billion (2019: USD 14.9 billion)<sup>44</sup>. In response to the COVID 19 outbreak the Bank remained fully committed to supporting its member countries by raising bonds in international and domestic markets and providing emergency financing to its member countries through a USD 10.0 billion Emergency Response Programme directed to finance health, social relief and boosting economic recovery.

### Financial Position

In 2020, the Bank has increased its total asset base to USD 18.8 billion (2019: USD 11.8 billion). This represents a 59% increase in total assets primarily due to growth in the NDB's treasury and loan portfolio, and additional contributions from member countries. NDB's loans and advances has increased to USD 6.6 billion (2019: USD 1.5 billion) as a result of loans provided to member countries and disbursements made to projects contributing to key areas of operations. NDB's treasury portfolio has increased to USD 10.3 billion (2019: USD 6.6 billion).

In 2020, the Bank increased its borrowings to USD 8.4 billion (2019: USD 1.6 billion). This substantial increase in borrowings is primarily due to issuances of a USD 1.5 billion three-year Euro Medium Term Note (EMTN), representing a benchmark USD-dollar bond issuance in international capital markets, and a USD 2.0 billion five-year EMTN to further support COVID emergency response programmes. The Bank made issuances in the China Interbank Bond Market of RMB 5.0 billion (USD 704 million equivalent) and RMB 2.0 billion (USD 284 million equivalent). In 2020, the Bank has made other notable issuances in these market including issuances of Euro Commercial Papers ('ECP').

### Portfolio performance

The Bank remained profitable and operated within its risks limits despite the challenges experienced due to the COVID 19 pandemic. For the year ended December 31, 2020, the Bank reported an operating profit of USD 101 million (2019: USD 151 million). NDB's operating profit decreased by USD 50 million in 2020. This was primarily driven by an increase in the provision for expected credit losses and a decrease in interest income from banks resulting from the current low interest rate environment.

## Section 2 Portfolio performance

### Approved project portfolio

In 2020, the Bank continued to deliver on its mandate to contribute to the growth and development of its member countries by investing in infrastructure and sustainable development projects. NDB increased its net project approvals to USD 24.4 billion (2019: USD 14.9 billion), a 64 % increase in approved project portfolio from 2019. The Bank continued investing in equity fund investments bringing the cumulative volume of equity fund investments in 2020 to USD 200 million (2019: USD 100 million).

The sovereign loan portfolio continued its expansion to USD 21.0 billion (2019: USD 11.9 billion) a 76% increase mainly due to the support provided through the Banks Emergency Response Programme that is directed finance health and social relief and to contribute to boosting the economic recovery in member countries. The non-sovereign loan portfolio grew by 13% to USD 3.3 billion (2019: USD 2.9 billion). The Bank will continue to increase the complexity and the range of products it offers in order to meet the needs of member countries.

In 2020, a strong focus was placed on distributing the portfolio of loan approvals more equitably across all five member countries. This was achieved successfully with the support of the regional offices in Brazil, Russia and South Africa. The opening of the regional office in India will soon follow, thereby increasing the effectiveness of the work the Bank does in its member countries.

<sup>44</sup> End-2020 portfolio of projects equals total approved projects in the period 2016-2020 net of full and partial cancellations and full repayments.

### Approved project portfolio by area of operation (net of cancellations and full repayments)

USD million	As at December 31, 2020	As at December 31, 2019
Sovereign Loans	20,966	11,935
Non-Sovereign Loans	3,269	2,898
Equity Investments	200	100
<b>Total approved project portfolio</b>	<b>24,435</b>	<b>14,933</b>

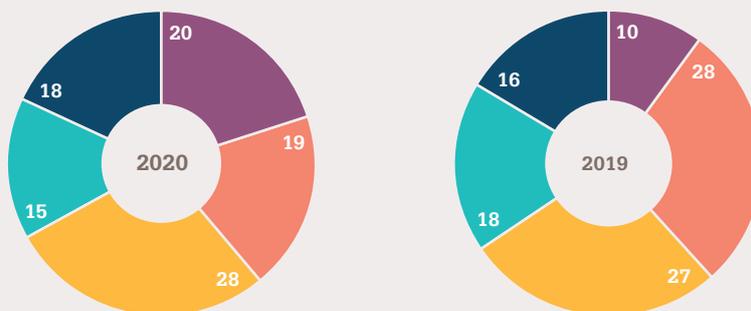
The key areas of operation, as set out in NDB's General Strategy: 2017-2021, are carefully considered during the Bank's initial project assessment leading to the final submission of projects to the BoD for approval. The Bank expanded the key areas of operation to include COVID-19 Emergency Assistance and Digital Infrastructure. The equity investment project has been classified as covering multiple key areas as, under the fund's investment strategy, a range of projects is expected to be covered. NDB embraced the concept of impact investment, bringing a range of positive and broad-based benefits to its member countries and their people.

### Treasury investment portfolio

At December 31, 2020, the total investment portfolio amounted to USD 10.3 billion (2019: USD 6.6 billion), an increase of USD 3.7 billion during the 2020 financial year. The investment portfolio is aligned with the liquidity requirements of the Bank such that sufficient cash resources are available to fund the operational needs of the Bank and meet anticipated disbursement requirements. Throughout its five years of operations, NDB has been investing only with highly-rated counterparty banks and has established sound working relationships with them during this time.

### Approved project portfolio: by country (net of cancellations and full repayments)

As at December 31  
%



USD million	2020	2019
■ Brazil	5,011	1,521
■ Russia	3,343	2,716
■ India	6,924	4,083
■ China	4,814	4,218
■ South Africa	4,343	2,395
<b>Total approved project portfolio</b>	<b>24,435</b>	<b>14,933</b>

### Borrowings

The Bank is predominantly financed through its members' paid-in capital and from borrowings raised in the capital markets. NDB seeks to be a regular issuer in both international and local markets of its member countries with a view to establishing a strong credit history and ensuring better liquidity and diversification opportunities for investors. Seeking funding in USD-denominated instruments and other hard currencies is an important facet of NDB's funding toolkit, however, so is local currency borrowing. Raising funding in the domestic markets of its member countries allows NDB to reduce its currency mismatch risks, and also to obtain funding at attractive costs using a wide range of fundraising instruments in different markets.

During the 2020 financial year, the Bank successfully registered its second RMB Bond Programme in the China Interbank Bond Market. The Bank has been granted approval to raise up to RMB 20.0 billion in the China Interbank Bond Market within

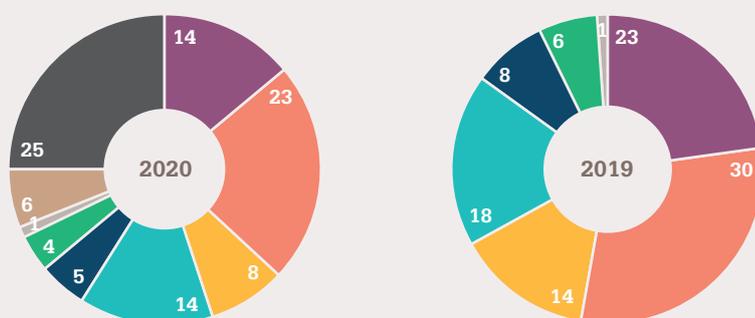
## Approved project portfolio by area of operation (net of cancellations and full repayments)

As at December 31  
USD million

	2020	2019
Clean energy	3,496	3,519
Environmental efficiency	900	1,200
Irrigation, water resource management and sanitation	1,891	2,080
Social infrastructure	1,010	960
Transport infrastructure	5,736	4,421
Urban development	3,466	2,653
Multi-theme	1,566	100
COVID-19 Emergency Assistance	6,070	–
Digital Infrastructure	300	–
<b>Total</b>	<b>24,435</b>	<b>14,933</b>

## Approved project portfolio by area of operation

%



- Clean energy
- Transport infrastructure
- Irrigation, water resource management and sanitation
- Urban development
- Environmental efficiency
- Social infrastructure
- Digital infrastructure
- Multi-theme
- COVID-19 Emergency Assistance

## Borrowing programmes

Month	Name of programme	Size
<b>International Markets</b>		
December 2019	EMTN Programme	USD 50 billion
April 2109	ECP programme	USD 8 billion
<b>Domestic Markets</b>		
November 2019	RUB Programme	RUB 100.0 billion
October 2020	CNY Bond Programme	CNY 20 billion
April 2109	ZAR Bond Programme	ZAE 10 billion

two years of the Programme registration date. The proceeds of the Programme will be used to finance infrastructure and sustainable development projects in the Bank's member countries.

In 2020, the Bank has successfully issued its USD 2 billion, 5-year COVID Response Bond in the international capital markets. This is the Bank's largest-ever USD benchmark bond to date. The net proceeds of the bond issuance are being used to finance sustainable development activities, including COVID-related emergency assistance programmes. The transaction garnered notable demand from a geographically diverse investor base, and substantial participation from central banks and official institutions, which accounted for 66% of final allocations. The geographic distribution of investors of the final bond book was: Asia: 57%, EMEA: 34%, Americas: 9%.

As a result of the above borrowing initiatives, as at December 31, 2020, the borrowing portfolio of the Bank comprised of unsecured borrowings and ECP. The table below summarises the borrowing programmes the Bank has registered in international and domestic markets to date to date.

### Equity

As at December 31, 2020, USD 8.1 billion (2019: USD 6.2 billion) in total paid-in capital had been received by the Bank from its member countries in accordance with the payment schedule set out in the Articles of Agreement with partial receipts relating to the seventh instalment received from Russia.

Moreover, the Bank has been consistently profitable since its inception and, as at December 31, 2020, had built up a reserve of retained earnings of USD 359 million. These reserves will be leveraged to support the Bank's operation in the execution of its mandate to mobilise resources for infrastructure and sustainable development projects for growth and development.

## Section 3 Financial results

### Interest Income from Banks

Interest income from banks has decreased from USD 194 million in 2019 to USD 149 million in 2020. This is primarily a result of a lower yield on USD time deposits. The Bank places investments with highly-rated counterparty banks in Mainland China, Hong Kong and Singapore and maintains a sufficient level of liquidity to meet anticipated cash flow requirements.

### Interest Income from Loans and Advances

Interest income from loans and advances has increased from USD 36 million in 2019 to USD 100 million in 2020, due to higher disbursements during the year. This increase in the interest income on loans is attributable to NDB disbursing an additional 11 loans during the 2020 financial year, despite the low interest rate environment. Cumulative disbursements increased to USD 6.6 billion from USD 1.5 billion in 2019.

### Interest Expense

The interest expense on bonds issued amounted to USD 54 million for the current year, an increase from USD 25 million in 2019. This is mainly due to additional issuances to fund emergency COVID loans approved in 2020 and the Panda Bond Issuance. Interest expense on note payables is up in 2020 to USD 18 million from USD 8 million in 2019. The increase relates to additional issuances that is used to fund disbursements to borrowers.

### Net Fee Income

Net fee income of the Bank comprises front-end fees and commitment fees. The Bank charges a front-end fee to the borrowers on the date of the first drawdown and the income is recognised over the life of the loan. The increase in front-end fees income from USD 1 million in 2019 to USD 2 million in 2020 is attributable to the 11 projects which saw their first drawdowns during 2020.

Commitment fees are levied on the accrued portion of the undisbursed loan balance. Commitment fees recognised during the year was USD 3 million compared to USD 1 million in the financial year 2019.

### General and administrative expenses and Other Expense

The growth of NDB in the 2020 financial year has resulted in general and administrative expenses increasing to USD 55 million in 2020 compared to USD 51 million the year before. In addition, an increase in bond issuance costs of USD 8 million, mainly on account of borrowing initiatives during the year.

### Financial information of statement of profit or loss and other comprehensive income

As at December 31

USD million

	2020	2019	Movement
Interest income from banks	149	194	(45)
Interest income from loans and advances	100	36	64
Other Interest Income	5	1	4
<b>Total interest income</b>	<b>254</b>	<b>231</b>	<b>23</b>
Interest expense on short-term borrowings	(1)	0	(1)
Interest expense on bonds issued	(54)	(25)	(29)
Interest expense on note payables	(18)	(8)	(10)
<b>Net interest income</b>	<b>181</b>	<b>198</b>	<b>(17)</b>
Net fee income	5	2	3
<b>Net interest income after fees</b>	<b>186</b>	<b>200</b>	<b>(14)</b>
General and administrative expenses	(55)	(51)	(4)
Bond issuance costs	(9)	(1)	(8)
Impairment losses under expected credit loss model, net of reversal	(38)	(2)	(36)
Foreign exchange gains/(losses) and net (losses)/gains on financial instruments at fair value through profit or loss	17	5	1,691
<b>Operating profit for the year</b>	<b>150,477</b>	<b>72,037</b>	<b>78,440</b>

### Financial information of statement of financial position

As at December 31

USD million

	2020	2019	Movement
<b>Assets</b>			
Treasury Assets	10,315	6,552	3,763
Derivative financial assets	27	5	22
Loans and advances	6,612	1,545	5,067
Paid-in capital receivables	1,885	3,714	(1,829)
Other Assets	5	5	-
<b>Total Assets</b>	<b>18,844</b>	<b>11,821</b>	<b>7,023</b>
<b>Liabilities</b>			
Borrowings	8,371	1,616	6,755
Derivative Financial Liabilities	98	12	86
Others	42	21	21
<b>Total Liabilities</b>	<b>8,511</b>	<b>1,649</b>	<b>6,862</b>
<b>Equity</b>			
Paid-in capital	10,000	10,000	-
Reserves	(26)	(86)	60
Retained earnings	359	258	101
<b>Total Equity</b>	<b>10,333</b>	<b>10,172</b>	<b>161</b>
<b>Total Equity and Liabilities</b>	<b>18,844</b>	<b>11,821</b>	<b>7,023</b>

## Loan Disbursements per category

As at December 31, 2020

USD million

Category	Effective facility	Utilised facility including interest	ECL on utilised facility including interest	ECL on Unutilised loan commitments
Sovereign	11,833	4,768	5	3
Non-Sovereign	2,429	1,875	26	5
<b>Total</b>	<b>14,262</b>	<b>6,643</b>	<b>31</b>	<b>8</b>

As at December 31, 2019

USD million

Sovereign	6,443	832	–	–
Non-Sovereign	2,016	718	5	1
<b>Total</b>	<b>8,459</b>	<b>1,550</b>	<b>5</b>	<b>1</b>

## Loan Disbursements by Country

As at December 31, 2020

USD million

Country	Effective facility	Utilised facility including interest	ECL on utilised facility including interest	ECL on Unutilised loan commitments
Brazil	833	516	10	1
India	5,092	2,056	3	2
Russia	1,968	994	1	0
China	4,811	1,746	1	1
South Africa	1,558	1,331	16	4
<b>Total</b>	<b>14,262</b>	<b>6,643</b>	<b>31</b>	<b>8</b>

As at December 31, 2019

USD million

Brazil	550	351	3	–
India	1,980	398	–	–
Russia	2,216	377	1	–
China	3,233	293	–	–
South Africa	480	131	1	1
<b>Total</b>	<b>8,459</b>	<b>1,550</b>	<b>5</b>	<b>1</b>

### Foreign Exchange Gains/(Losses) and Net (Losses)/Gains on Financial Instruments at Fair Value through Profit or Loss

At the end of the 2020 financial year, foreign exchange losses and fair value gains amounted to USD 17 million (2019: USD 5 million). This movement predominantly relates to the following:

- Foreign exchange gains of USD 208 million (2019: USD 17 million losses) primarily reflects a strengthening RMB/USD exchange rate and increase in the foreign currency exposures primarily in the form of loans and deposits; and
- Net losses on financial instruments at fair value through profit or loss of USD 191 million in 2020 (2019: USD 22 million gains) which was driven by fair value adjustments on the liabilities and exchange rate fluctuations (which is reported at fair value through profit and loss).

To manage and limit the effects of risks associated with fluctuating exchange and interest rates, NDB has entered into derivative contracts with highly-rated counterparties to hedge the interest rate and foreign exchange risks arising from the Green Bond and Panda Bond issuance.

### Impairment Provision

The Bank recognises impairment losses on treasury deposits, loans and advances and treasury bonds to reflect any Expected Credit Losses (ECL) in accordance with IFRS 9. The impairment provision recognised in the income statement of 2020 amounted to USD 38 million, this represents a USD 36 million increase from 2019. This increase is primarily attributable to the first time recognition of impairment losses on the treasury portfolio, in addition to two loans having been transferred to stage 2 due to a significant increase in credit risk.

Other changes in the impairment allowance relate to changes in probability of default, increase in the number of disbursements in 2020, as well as the changes in projected draw-down for the financial year 2020. Furthermore, the impairment provision took into consideration the probability of default primarily due to changes regarding forward looking information.

### Treasury Assets

The investment portfolio is aligned with the liquidity requirements of the Bank such that sufficient cash resources are available to fund the operational needs of the Bank and meet anticipated disbursement requirements.

In 2020, the treasury portfolio of USD 10.3 billion (2019: USD 6.6 billion) consists of treasury assets placed in current accounts, time deposits, commercial bonds, money market deposits, policy bonds and reverse repos. Movement in the treasury portfolio

mainly relates to the payment of capital from member countries relating to the 6th instalment, an early receipt from Russia relating to the 7th instalment and additional issuances of bonds and ECPs.

Treasury assets (current account and time deposits) are mainly invested in highly rated banks in Mainland China, Hong Kong and Singapore. Investments in bonds measured at amortised cost relate to the Bank's investments in a commercial bank bond denominated in RMB and a policy bank-bond denominated in RMB.

### Loans and Advances

Supported by paid-in capital from its member countries and access to capital markets through successful issuances, the Bank effectively mobilised funds for its disbursements during 2020. As at December 31, 2020, cumulative loan disbursements were USD 6.6 billion (2019: USD 1.5 billion). This can be attributed to an additional 11 loans disbursing for the first time, which brought the total number of disbursed loans to 36.

### Borrowings

The Bank is predominantly financed through its members' paid-in capital and from borrowings raised in the capital markets. The borrowing portfolio consists of bonds issued, euro commercial papers and other short term borrowings.

During 2020 financial year, NDB successfully issued the following:

- Inaugural USD 1.5 billion Euro Medium Term Note;
- CNY 5.0 billion (USD 704 million) Corona virus combating bond;
- CNY 2.0 billion (USD 284 million) bond;
- USD 2.0 billion Euro Medium Term Note; and
- USD 50 million Euro Medium Term Note.

As at 31 December 2020, the total fair value of the Bank's bond portfolio was USD 5.6 billion (2019: USD 883 million) as a result of the additional issuances. NDB's bond portfolio value at December 31, 2020 included fair value losses of USD 115 million (2019: USD 20 million gains) which can be attributed to changes in market interest rates during the financial year.

Additionally, in 2020, the Bank drew from the ECP Programme that granted the Bank access to short-term funding in the capital markets to cover liquidity management requirements. At December 31, 2020 the nominal value of the outstanding balances for note payables amounted to USD 2.8 billion (2019: USD 623 million).

### Equity fund investments

As at December 31, 2020, the Bank has approved two equity investments in Brazil and India amounting to USD 200 million (2019: 100 million). For 2020, the Bank has received a call for costs amounting to USD 1.8 million for the investment in Brazil.

### Equity

As at December 31, 2020, the total paid-in capital received by the Bank amounted to USD 8.1 billion (2019: USD 6.2 billion). Russia made a partial payment in anticipation of its 7th instalment of paid-in capital, due on January 3, 2022.

### Equity

USD million

	Cumulative paid-in capital received as at Dec 31, 2020	Cumulative paid-in capital received as at Dec 31, 2019
Brazil	1,358	1,300
India	1,780	1,300
Russia	1,650	1,000
China	1,650	1,300
South Africa	1,650	1,300
<b>Total</b>	<b>8,088</b>	<b>6,200</b>

## Section 4 Risk management

### Risk Governance

NDB adopts a conservative and integrated approach to Risk Management, which supports the strategic decision making process of the institution. The Bank consistently conducts its activities within an 'Enterprise Risk Management and Risk Appetite Framework' (the Framework) established by its BoD. This Framework consolidates and reveals the risk preference of NDB, fostering consistency, accountability and transparency of the business decisions in the Bank, institutionalising a strong risk culture across the institution.

In order to safeguard its capital base, NDB follows international standards to actively manage all inherent risks in its activities, including credit, market (exchange rate and interest rate risks), liquidity, and operational risks. The risk governance structure of the Bank is based on 'three-lines of defence'. The Framework provides a comprehensive description of the Bank-wide risk management principles and risk appetite parameters guiding the operations of the Bank. The risk appetite parameters guide both strategic planning and day-to-day tactical decision making, thereby avoiding excessive risk taking and encouraging the development of effective controls to protect the key resources of the Bank. While the Framework defines various risk categories, bank-level appetite and limits, respective risk policies define risk limits at a granular level. Roles and responsibilities, ownership for each category of risk have been clearly defined in the Framework and respective policies. A consolidated risk reporting mechanism providing portfolio view and individual category of risk view has been established. The risk report is submitted to the ARC Committee via the Finance Committee.

### Capital Adequacy

The main objective of the capital management framework is to ensure that the Bank maintains capital sufficiency and flexibility against the inherent risks in daily business and can withstand unexpected

potential losses given a certain risk preference. The Bank's management has established appropriate policies and procedures to manage the capital adequacy from a risk perspective. Thus, NDB monitors capital adequacy within a capital management framework which seeks to ensure that the Bank's capital is aligned with the overall strategy of the Bank, as laid down by the BoG, budgets and financial risk associated with its business and to ensure sufficient capital exists to cover the risks arising from the business.

### Equity-to-Asset Ratio

The Equity-to-Asset ratio serves as a key capital metric for the Bank from an operational perspective. The absolute minimum level is set at 25%. However, the Bank sets 30% as the early warning indicator.

The Equity-to-Asset ratio as at December 31, 2020 is 50% (2019: 80%); well above the limit of 25%.

The decrease in the ratio relates to the increase in loan and other exposures, partially offset by the receipt in paid-in capital. As the Bank begins to reach steady state, this ratio will stabilise above the limit.

### Limitations on Operations

The limitations on ordinary operations ratio is 37.4% for 2020, which is well within the Bank's management action trigger of 95% and has increased since 2019 due to additional loans and other exposures.

### Capital Utilisation Ratio

Capital Utilisation Ratio (CUR) measures the Required Risk capital, based on Basel standardised (Credit risk, market risk and operational risk) over capital (received paid-in capital, reserves and surplus). The CUR is 9.76% in 2020, higher than 4.3% observed in 2019. As expected, the CUR has increased with increase in loan and other exposures, partially offset by receipts of paid-in capital.

### Interest Rate Risk

The Bank strives to minimise its exposure to losses resulting from interest rate risk

by matching the tenor and interest rates of its assets with those of the corresponding funding sources, and the Bank uses derivatives to offset interest rate mismatches.

Interest rate risk results from interest rate variations that affect all balance sheet items which valuation is dependent on interest rates, whether they are fixed or variable. The Bank applies a duration gap limit of 5 years as its primary measure to contain financial risk from interest rate risk exposure, and uses Value-at-Risk (VaR) calculations to monitor interest rate risk exposure. The duration gap as of end of 2020 was 0.36 year (2019: 0.35 year).

### Exchange Rate Risk

NDB strives to minimise its exposure to losses resulting from exchange rate risk by matching the currency of its assets with the currency of the corresponding funding sources, and also uses derivatives to offset currency mismatches. The Bank measures the net open position of aggregated non-USD currencies against a limit of USD 20.0 million. As at the end of 2020, the net aggregate exposure was USD 1.2 million or 5.9 % of the limit (2019: USD 7.3 million or 36.5% of the limit). The Bank uses VaR calculations to monitor exchange rate risk exposure.

The Bank continues to register bond programmes in off-shore and in member countries' markets. This has enabled the Bank to meet the demand for local currency financing of its members and manage its exchange rate risk by observing currency matching principles.

### Liquidity Risk

The Bank has a prudent approach to liquidity management and maintains an extremely strong liquidity position in very high-quality investments both in the short and long term.

Expected USD cash outflows relating to project loan disbursements in the period following the financial year 2020 were sufficiently covered by cash inflows from deposits and other high-quality investments.

The Bank is characterised by conservative compliance with its targeted liquidity ratios, reflecting the high level of short-term deposits. As at the end of the 2020 financial year, the weighted average maturity of 0.4 years is slightly larger than the maturity at the end of the previous reporting period of 0.3 years.

The primary liquidity ratio decreased since 2019 and shows a converging trend towards the Bank's indicative target range of 110% and 150%, in order to balance risks and opportunity costs. Further, the Bank's access to capital markets provides an additional protection in circumstances of extreme liquidity stress.

### Capital adequacy ratios

As at December 31

Ratio	Metric	2020	2019
Equity to assets	%	50	80
Limitations on operations	%	37.4	23.8
Capital utilisation ratio	%	9.76	4.30

## Credit Risk

### Sovereign and Non-Sovereign Credit Risk Measurement

The credit quality of the Bank's loan portfolio remains investment grade. To measure sovereign credit risk, the Bank uses data from rating agencies. During the course of 2020, South Africa was downgraded by Moody's to Ba2 from Baa3 with negative outlook, by Fitch to BB- from BB+ with negative outlook and by S&P to BB- from BB with stable outlook. Furthermore, Moody's downgraded India's sovereign rating to Baa2 (negative outlook) from Baa3 (negative outlook). The Bank has updated the rating criteria applicable to sovereign transactions from the highest rating to the average rating approach, in line with the updated Credit Risk Management Policy approved in December, 2020. As at December 31, 2020, the Weighted Average Risk Rating (WARR) of the sovereign loan portfolio has come down to BBB- as against BBB+ at the end of the financial year 2019 and remains within the investment grade band.

To measure non-sovereign credit risk, the Bank uses a combination of credit risk data from rating agencies and its own internal credit assessment, which is based on both financial and non-financial factors. As at December 31, 2020, the Bank has approved USD 3.27 billion non-sovereign loans in Brazil, Russia, India and South Africa with a WARR of BBB- (2019: USD 2.90 billion and WARR of BBB-).

### Risk Analysis of Total Projects Portfolio

The WARR of the total loan portfolio for the 2020 financial year remains within investment grade at BBB-, which is two notches below the previous year's rating mainly reflecting the updates in the ratings of the member countries and increased allocation to lower-rated sovereigns. As at the end of the 2020 financial year, two loans representing approvals of USD 378.4 million have been put into the watch list. The Bank has approved two equity fund investments of USD 100 million each to Patria Infrastructure Fund IV and to National Investment and Infrastructure Fund: Fund of Funds – I.

### Operational Risk and Internal Control

Operational risk is the risk of loss arising from failure or inadequacy of systems and controls, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. This comprises governance structures, policies, processes

### Liquidity ratios

As at December 31

Ratio	Metric	2020	2019
Primary Liquidity Ratio (1-year)	%	125	163

### Total approved sovereign projects by country<sup>45</sup>

Member Country	As at December 31, 2020		As at December 31, 2019	
	Approved sovereign loans portfolio USD million	WARR	Approved sovereign loans portfolio USD million	WARR
Brazil	4,111	BB-	621	BB
Russia	1,752	BBB-	1,500	BBB
India	6,524	BBB-	3,783	BBB
China	4,814	A+	4,218	A+
South Africa	3,765	BB-	1,183	BBB-
<b>Total Approved Sovereign Projects</b>	<b>20,966</b>	<b>BBB-</b>	<b>11,935</b>	<b>BBB+</b>

### Total approved projects portfolio by country<sup>46</sup>

Country	As at December 31, 2020		As at December 31, 2019	
	Total approved projects portfolio USD million	WARR	Total approved projects portfolio USD million	WARR
Brazil <sup>47</sup>	900	BB+	500	BB
Russia	1,216	BBB	400	BBB
India	300	BBB-	–	–
China	4,814	A+	4,218	A+
South Africa	582	BBB-	500	BBB-
<b>Total Approved Loans</b>	<b>24,435</b>	<b>BBB-</b>	<b>14,933</b>	<b>BBB+</b>

45 Approved sovereign loans portfolio is total approved sovereign loans net of full and partial cancellations and full repayments.

46 Approved projects portfolio is total approved loans net of full and partial cancellations and full repayments.

47 Includes a Private Equity investment.

and systems used to identify, measure, monitor, control and mitigate operational risk. NDB's approach includes self-assessments, loss data management and periodic monitoring and reporting of key risk indicators.

The Bank is currently following a basic indicator approach for the computation of operational risk capital charge.

The Internal Control Framework of the Bank includes the roles and responsibilities of various divisions within the three-lines of defence, internal-checks embedded in payments and decision making process, documentation of risks and controls. The Risk division along with other divisions had initiated design and rollout of Internal Control Framework (ICF) for the Bank. The Bank has established a mechanism for documentation of processes and controls in a structured manner. The Policies are reviewed and recommended by the Board Level Committees and approved by the Board.

NDB has established a Business Continuity Management and Disaster Recovery framework, in line with its risk profile, criticality of activities and the cloud based computing approach adopted by the Bank. The Bank had successfully operated in business continuity mode in 2020 and no critical activities were impacted.

## **Treasury Business**

### **Credit Risk Management**

As at December 31, 2020, there were no breaches of treasury credit limits (concentration limits and counterparty limits). The credit quality of the Bank's treasury investment portfolio as at December 31, 2020 of USD 10.2 billion (2019: USD 6.3 billion) remained concentrated in the upper end of the credit spectrum since the counterparties for investments (i.e. deposits and bonds) are mostly highly rated banks.

The Weighted Average Risk Rating (WARR) for the investment portfolio is A+ (equivalent of A1). The weighted average remaining maturity is 6.3 months.

None of the counterparties exceeded the concentration limit that aims to prevent excessive concentration of the Bank's investments with any individual counterparty.

As of December 31, 2020, all swap transactions are transacted with well rated counterparties (A- or above).



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# 2020 Annual Financial Statements

for the Year Ended December 31, 2020

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, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

## Key audit matters

Key audit matter is the matters that, in our professional judgment, were 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.

## 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 matter	How our audit addressed the key audit matter
<p><b>Measurement of expected credit loss ('ECL') of loans and advances</b></p> <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>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> <p>As at December 31, 2020, the Bank held loans and advances to customers of USD 6,643 million, less impairment allowance of USD 31 million as disclosed in Note 20 to the financial statements.</p>	<p>Our procedures in relation to management's measurement of ECL for loans and advances included:</p> <ul style="list-style-type: none"> <li>• Evaluating key controls of the management over the measurement of ECL;</li> <li>• Evaluating the appropriateness of the ECL model, and the critical assumptions and parameters used in the models, in particular PD, LGD and weighting of forward-looking scenario;</li> <li>• 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;</li> <li>• On a sample basis, checking the weighted calculation of the ECL for the selected loans and advances.</li> </ul>

## Independent Auditor's Report – continued

### Other information

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

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

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

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

### Responsibilities of Management and the Board of Governors for the financial statements

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

In preparing the financial statements, the management 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 judgement 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.
- 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

March 30, 2021

## Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2020

Expressed in millions of U.S. Dollars	Notes	Year ended December 31, 2020	Year ended December 31, 2019
Interest income	7	254	231
Interest expense	7	(73)	(33)
Net interest income	7	181	198
Net fee income	8	5	2
Net (losses)/gains on financial instruments at fair value through profit or loss	9	(191)	22
		(5)	222
Staff costs	10	(41)	(33)
Other operating expenses	11	(14)	(18)
Impairment losses under expected credit loss model, net of reversal	5	(38)	(2)
Foreign exchange gains/(losses)		208	(17)
Other expense	12	(9)	(1)
<b>Operating profit for the year</b>		<b>101</b>	<b>151</b>
Unwinding of interest on paid-in capital receivables		49	72
<b>Profit for the year</b>		<b>150</b>	<b>223</b>
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Fair value gain on debt instruments at fair value through other comprehensive income		1	–
Impairment loss for debt instruments at fair value through other comprehensive income included in profit or loss		–*	–
<b>Other comprehensive income for the year</b>		<b>1</b>	<b>–</b>
<b>Total comprehensive income for the year</b>		<b>151</b>	<b>223</b>

\* Less than United States dollar ("USD") half a million.

# Statement of Financial Position

As at December 31, 2020

Expressed in millions of U.S. Dollars	Notes	As at December 31, 2020	As at December 31, 2019
<b>Assets</b>			
Cash and cash equivalents	13	2,193	1,023
Due from banks other than cash and cash equivalents	14	6,762	5,495
Derivative financial assets	15	27	5
Financial assets held under resale agreements	16	66	–
Financial assets at fair value through profit or loss	17	400	–
Debt instruments at fair value through other comprehensive income	18	131	–
Debt instruments measured at amortised cost	19	763	34
Loans and advances	20	6,612	1,545
Paid-in capital receivables	21	1,885	3,714
Right-of-use assets		–*	–*
Property and equipment	22	1	1
Intangible assets	23	1	2
Other assets	24	3	2
<b>Total assets</b>		<b>18,844</b>	<b>11,821</b>
<b>Liabilities</b>			
Derivative financial liabilities	15	98	12
Financial liabilities designated at fair value through profit or loss	25	5,556	883
Borrowings	26	–	110
Note payables	27	2,815	623
Lease liabilities		–*	–*
Contract liabilities	28	28	15
Other liabilities	29	14	6
<b>Total liabilities</b>		<b>8,511</b>	<b>1,649</b>
<b>Equity</b>			
Paid-in capital	30	10,000	10,000
Reserves	31	(26)	(86)
Retained earnings		359	258
<b>Total equity</b>		<b>10,333</b>	<b>10,172</b>
<b>Total equity and liabilities</b>		<b>18,844</b>	<b>11,821</b>

\* Less than United States dollar ("USD") half a million.

The annual financial statements on pages 94 to 140 were approved and authorised for issue by the Board of Governors on March 30, 2021 and signed on their behalf by:



**Marcos Prado Troyjo**  
President



**Leslie Warren Maasdorp**  
Chief Financial Officer



**Paritosh Pandit**  
Chief Financial Controller

## Statement of Changes in Equity

For the year ended December 31, 2020

Expressed in millions of U.S. Dollars	Paid-in capital	Capital reserve	Revaluation reserve	Other reserves	Retained earnings	Total
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)	–
<b>As at December 31, 2020</b>	<b>10,000</b>	<b>–*</b>	<b>1</b>	<b>(27)</b>	<b>359</b>	<b>10,333</b>

Expressed in millions of U.S. Dollars	Paid-in capital	Other reserves	Retained earnings	Total
As at January 1, 2019	10,000	(162)	107	9,945
Operating profit for the year	–	–	151	151
Unwinding of interest on paid-in capital receivables for the year	–	–	72	72
Total comprehensive income for the year	–	–	223	223
Impact of early payment on paid-in capital receivables (Note 21)	–	4	–	4
Reclassification of unwinding of interest arising from paid-in capital receivables	–	72	(72)	–
<b>As at December 31, 2019</b>	<b>10,000</b>	<b>(86)</b>	<b>258</b>	<b>10,172</b>

\* Less than United States dollar ("USD") half a million.

## Statement of Cash Flows

For the year ended December 31, 2020

Expressed in millions of U.S. Dollars	Year ended December 31, 2020	Year ended December 31, 2019
<b>Operating activities</b>		
Profit for the year	150	223
<b>Adjustments for</b>		
Interest expense	73	33
Interest income from debt instruments measured at amortised cost	(3)	(1)
Interest income from debt instruments at fair value through other comprehensive income	–*	–
Depreciation and amortisation	2	1
Unrealised losses/(gains) on financial instruments	181	(18)
Unwinding of interest on paid-in capital receivables	(49)	(72)
Impairment losses under expected credit loss model, net of reversal	38	2
Exchange (gains)/losses on debt instruments at amortised cost	(5)	1
Exchange (gains)/losses on lease liabilities	–*	–*
Debt issuance cost	9	1
<b>Operating cash flows before changes in operating assets and liabilities</b>	<b>396</b>	<b>170</b>
Net increase in due from banks	(1,271)	(694)
Net increase in loans and advances	(5,086)	(913)
Net increase in financial assets held under resale agreements	(66)	–
Net increase in financial assets at fair value through profit or loss	(400)	–
Net increase in other assets	(1)	(1)
Net increase in other liabilities and contract liabilities	7	7
Interest paid on bonds and borrowings	(27)	(14)
Interest paid on financial assets sold under repurchase agreements	–*	–
Interest paid on note payables	(15)	(3)
Interest paid on lease liabilities	–*	–*
Interest received on debt instruments measured at amortised cost	2	1
<b>Net Cash used in operating activities</b>	<b>(6,461)</b>	<b>(1,447)</b>

\* Less than United States dollar ("USD") half a million.

## Statement of Cash Flows – continued

For the year ended December 31, 2020

Expressed in millions of U.S. Dollars	Year ended December 31, 2020	Year ended December 31, 2019
<b>Investing activities</b>		
Purchase of debt instruments measured at amortised cost	(771)	(75)
Proceeds from redemption of debt instruments measured at amortised cost	47	40
Purchase of financial assets at fair value through profit or loss	(2)	–
Purchase of debt instruments at fair value through other comprehensive income	(130)	–
Purchase of property and equipment and intangible assets	(1)	(2)
<b>Net cash used in investing activities</b>	<b>(857)</b>	<b>(37)</b>
<b>Financing activities</b>		
Paid-in capital received	1,888	1,209
Contribution from founding member	–*	–
Proceeds from short-term borrowings	250	110
Proceeds from issuance of bonds	4,530	448
Proceeds from issuance of note payables	5,527	1,085
Repayments of short-term borrowings	(360)	–
Repayments from note payables	(3,338)	(467)
Payment of issuance cost of bond	(9)	(1)
Payment of issuance cost on note payables	–*	–*
Repayments of lease liabilities	–*	–*
<b>Net cash from financing activities</b>	<b>8,488</b>	<b>2,384</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,170</b>	<b>900</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>1,023</b>	<b>123</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>2,193</b>	<b>1,023</b>
Interest received	265	193
Interest paid	(42)	(17)

\* Less than United States dollar ("USD") half a million.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 1. General information

The New Development Bank (the 'Bank') was established on the signing of the Agreement on the New Development Bank (the 'Agreement') on July 15, 2014 by the Government of the Federative Republic of Brazil ('Brazil'), the Russian Federation ('Russia'), the Republic of India ('India'), the People's Republic of China ('China') and the Republic of South Africa ('South Africa'), collectively the 'BRICS' countries or founding members. The Agreement took effect on July 3, 2015 according to the notification endorsed by Brazil in its capacity as depositary. The headquarters of the Bank is located in Shanghai, China. The Bank has established the Africa Regional Center in Johannesburg, Americas Regional Office in São Paulo and Eurasian Regional Centre in Moscow.

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

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

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

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

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

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 2. Application of international financial reporting standards – continued

### 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 have not yet become effective:

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

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

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

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

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

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

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

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. For the year ended December 31, 2020 the Bank has changed the unit of presentation from USD thousand to USD million. Therefore, the comparative figures in these financial statements are different from amounts presented in the financial statements for the year ended December 31, 2019.

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.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 3. Significant accounting policies and basis of preparation – continued

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

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

#### Revenue

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

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

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

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

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.

#### 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.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 3. Significant accounting policies and basis of preparation – continued

### 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.

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:

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

### Intangible assets

Intangible assets 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:

- 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.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 3. Significant accounting policies and basis of preparation – continued

#### Intangible assets – continued

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

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
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#### Leases

##### Definition of a lease

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

For contracts entered into or modified on or after the date of initial application, the Bank assesses whether a contract is or contains a lease based on the definition under IFRS 16 *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.

##### 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.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 3. Significant accounting policies and basis of preparation – continued

### Leases – continued

#### As a lessee – continued

##### Right-of-use assets

The cost of right-of-use assets include:

- 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.

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.

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.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 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

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.

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.

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 fair value through other comprehensive income ('FVTOCI'), other receivables, financial assets at fair value through profit or loss, note payables, other payables measured at amortised cost, derivative financial assets/liabilities and bonds designated at fair value through profit or loss ('FVTPL').

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

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.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 3. Significant accounting policies and basis of preparation – continued

### Financial instruments – continued

#### Initial recognition and measurement – continued

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.

##### 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 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.

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.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 3. Significant accounting policies and basis of preparation – continued

#### Financial instruments – continued

##### Classification and subsequent measurement of financial instruments – continued

##### Financial assets – continued

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.

##### 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 designated 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.

The Bank applies the fair value measurement option to the bonds issued in 2016, 2019 and 2020 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.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 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 measured at amortised cost

Other financial liabilities 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.

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.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 3. Significant accounting policies and basis of preparation – continued

#### Financial instruments – continued

##### Measurement of ECL

The measurement of ECL is a function of the probability of default, loss given default ('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.

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 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 its rights to 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.

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.

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.

##### 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.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 3. Significant accounting policies and basis of preparation – continued

### Financial instruments – continued

#### 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.

### 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 also be 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.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 4. Critical accounting estimates and judgements applied by management

In the application of the Bank's accounting policies, which are described in Note 3, the Bank is required to make estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### 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.

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

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

#### Valuation of derivative contracts and bonds designated at FVTPL

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

#### Discounting of paid-in capital receivables

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

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 5. Financial risk management

### Overview

The Bank's major financial instruments include debt investments, borrowings, and loans and advances. Details of the financial instruments are disclosed in respective notes.

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

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

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

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.

### 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 fulfil this purpose. Any possibility of inability or unwillingness of borrowers or obligors to meet their financial obligation with the Bank leads to credit risk.

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

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

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

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

In case a loan has neither a sovereign guarantee nor an external credit rating, the Bank uses an internal credit rating taking into account specific project, sector, macro and country credit risks. The Risk Division obtains and uses the latest rating result of the obligors to measure credit risk profile of the Bank. The Risk Division of the Bank 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.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 5. Financial risk management – continued

#### Credit risk – continued

##### ECL measurement

The Bank applies a three-stage model for impairment based on changes in credit quality since initial recognition. The ECL calculation tool designed by Moody's is used for the year ended December 2020 and 2019.

##### 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:

##### Quantitative criteria include:

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

##### Qualitative criteria include:

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

##### 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. 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.

##### 12-month ECL measurement

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

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

- Unconditional Point-in-time Probability of Default ('PIT-PD') for sovereign loans is changed for the year ended December 31, 2020, for the refinement of key assumptions and estimates made based on the Bank's recent experience and peer practice after the Bank's revisiting the ECL model, from the latest Standard and Poor's observed default rate to Moody's model which has been applied for non-sovereign loans in prior years and considers specific rating, country and industry information. The unconditional PIT-PD is also derived based on Moody's model for due from banks, debt instruments measured at amortised cost and debt instruments at FVTOCI. It is then conditioned on three future macroeconomic scenarios (baseline, optimistic and pessimistic);
- LGD for the sovereign loans is changed for the year ended December 31, 2020 for the refinement of key assumptions and estimates made based on the Bank's recent experience and peer practice from 30% to a range of 10% to 45%, and LGD for the non-sovereign loans is changed from 75% to 45% for non-sovereign loans with senior unsecured claims and 75% for non-sovereign loans with subordinated claim, respectively, after the Bank's revisiting the ECL model. 10% of LGD is applied for sovereign debt instruments measured at amortised cost and sovereign debt instruments at FVTOCI. 45% of LGD is applied 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. The EAD includes the sum of principal and interest receivable 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.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 5. Financial risk management – continued

### Credit risk – continued

#### Lifetime ECL measurement

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

$$\text{Lifetime ECL} = \sum_{t=1}^{\text{Lifetime}} \text{PD}_t \times \text{LGD}_t \times \text{EAD}_t \times \text{DE}_t$$

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

Forward-looking information incorporated in ECL

#### Macro scenario development

- (i) 3 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 macroeconomic 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 judgement without undue cost or effort that, going forward the current path of macroeconomic projections with an equal chance of being worse (pessimistic scenario) or better (optimistic scenario).

#### Sensitivity analysis

The weights of the scenarios used, is another source of sensitivity. Should the Bank have changed the weightings to 45%, 25% and 30% respectively for baseline, optimistic and pessimistic scenarios, the amount of ECL would have been USD 46.2 million (December 31, 2019: USD 6.1 million) or increased by USD 2.3 million (December 31, 2019: USD 0.3 million).

#### Definition of default

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

- Delay in interest or principal payment exceeds 90 days.
- Breach of specific covenants that trigger a default clause.
- Failure to pay a final judgement or court order.
- Bankruptcy, liquidation or the appointment of a receiver or any similar official.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 5. Financial risk management – continued

#### Credit risk – continued

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

#### Credit exposure on loan facilities

As at December 31, 2020	Maximum facility USD million	Effective facility USD million	Utilised USD million	Unutilised loan commitments 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
<b>Total</b>	<b>15,882</b>	<b>14,262</b>	<b>6,609</b>	<b>7,653</b>
Interest receivable			34	–
Less: Provision for loans and commitments			(31)	(8)
<b>Carrying amount as at December 31, 2020</b>			<b>6,612</b>	<b>7,645</b>

As at December 31, 2019	Maximum facility USD million	Effective facility USD million	Utilised USD million	Unutilised loan commitments USD million
Senior investment grade	3,570	3,283	329	2,954
Investment grade	5,246	4,626	862	3,764
Sub-investment grade	550	550	348	202
<b>Total</b>	<b>9,366</b>	<b>8,459</b>	<b>1,539</b>	<b>6,920</b>
Interest receivable			11	–
Less: Provision for loans and commitments			(5)	(1)
<b>Carrying amount as at December 31, 2019</b>			<b>1,545</b>	<b>6,919</b>

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.

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

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 5. Financial risk management – continued

### Credit risk – continued

#### Concentration risk – continued

As at December 31, 2019	Effective facility USD million	Utilised USD million	Unutilised loan commitments USD million
India	1,980	395	1,585
China	3,233	292	2,941
Russia	2,216	374	1,842
South Africa	480	130	350
Brazil	550	348	202
<b>Total</b>	<b>8,459</b>	<b>1,539</b>	<b>6,920</b>
Interest receivable		11	–
Less: Provision for loans and commitments		(5)	(1)
<b>Carrying amount as at December 31, 2019</b>		<b>1,545</b>	<b>6,919</b>

#### 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 and Singapore. The credit ratings of banks are analysed as below:

	As at Dec 31, 2020 USD million	As at Dec 31, 2019 USD million
<b>Cash equivalents</b>		
Senior investment grade	2,176	1,023
Investment grade	17	–
Sub-investment grade	–*	–
<b>Due from banks other than cash and cash equivalents</b>		
Senior investment grade	6,746	5,495
Investment grade	20	–
<b>Total</b>	<b>8,959</b>	<b>6,518</b>
Less: ECL allowance	(4)	–
<b>Carrying amount as at December 31, 2020</b>	<b>8,955</b>	<b>6,518</b>

\* Less than United States dollar ("USD") half a million.

#### Credit exposure on debt instruments measured at amortised costs

	As at Dec 31, 2020 USD million	As at Dec 31, 2019 USD million
Senior investment grade	737	34
Investment grade	27	–
<b>Total</b>	<b>764</b>	<b>34</b>
Less: ECL allowance	(1)	–
<b>Carrying amount as at December 31, 2020</b>	<b>763</b>	<b>34</b>

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 5. Financial risk management – continued

#### Credit risk – continued

##### Credit exposure on debt instruments at FVTOCI

	As at Dec 31, 2020 USD million	As at Dec 31, 2019 USD million
Senior investment grade	131	–
<b>Total</b>	<b>131</b>	<b>–</b>

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, 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, 2020. 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 bond issued, time deposits and investment measured at amortised cost. The Bank chose counterparties with high credit rating mostly in mainland China, Hong Kong and Singapore 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.

##### Credit risk on financial assets held under resale agreements

There has been no significant increase in credit risk since initial recognition associated with the amounts of financial assets held under resale agreements up to December 31, 2020.

##### 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.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 5. Financial risk management – continued

### Liquidity risk – continued

As at December 31, 2020	On demand USD million	Less than 1 month USD million	1-3 months USD million	3-12 months USD million	1-5 years USD million	Over 5 years USD million	Total USD million
<b>Non-derivatives</b>							
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)
<b>Sub-total</b>	<b>2,096</b>	<b>2,435</b>	<b>1,422</b>	<b>203</b>	<b>(1,507)</b>	<b>7,446</b>	<b>12,095</b>
<b>Derivatives</b>							
<b>Net setting derivatives</b>							
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)
<b>Gross setting derivatives</b>							
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)
<b>Sub-total</b>	<b>–</b>	<b>(1)</b>	<b>(26)</b>	<b>29</b>	<b>12</b>	<b>(91)</b>	<b>(77)</b>
<b>Net</b>	<b>2,096</b>	<b>2,434</b>	<b>1,396</b>	<b>232</b>	<b>(1,495)</b>	<b>7,355</b>	<b>12,018</b>

\* Less than United States dollar ("USD") half a million.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 5. Financial risk management – continued

#### Liquidity risk – continued

As at December 31, 2019	On demand USD million	Less than 1 month USD million	1-3 months USD million	3-12 months USD million	1-5 years USD million	Over 5 years USD million	Total USD million
<b>Non-derivatives</b>							
Cash and cash equivalents	226	742	56	–	–	–	1,024
Due from banks other than cash and cash equivalents	–	1,331	1,497	2,475	254	–	5,557
Loans and advances	–	–	21	45	539	1,391	1,996
Paid-in capital receivables	–	300	–	–	3,500	–	3,800
Debt instruments measured at amortised cost	–	–	1	8	27	–	36
Other financial assets	1	–	–	–	–	–	1
Financial liabilities designated at FVTPL	–	–	(13)	(13)	(904)	–	(930)
Short-term borrowings	–	(110)	–	–	–	–	(110)
Note payables	–	(97)	(280)	(250)	–	–	(627)
Lease liabilities	–	–	–*	–*	–*	–	–*
Other financial liabilities	(4)	–	–	–	–	–	(4)
<b>Sub-total</b>	<b>223</b>	<b>2,166</b>	<b>1,282</b>	<b>2,265</b>	<b>3,416</b>	<b>1,391</b>	<b>10,743</b>
<b>Derivatives</b>							
<b>Net setting derivatives</b>							
Interest rate swap – cash inflow	–	–	10	2	30	–	42
Interest rate swap – cash outflow	–	(1)	(5)	(10)	(18)	–	(34)
<b>Gross setting derivatives</b>							
Cross currency swap – cash inflow	–	–	–	11	350	–	361
Cross currency swap – cash outflow	–	(4)	–	(3)	(365)	–	(372)
Foreign exchange forward – cash inflow	–	–	–	256	15	–	271
Foreign exchange forward – cash outflow	–	–	–	(258)	(15)	–	(273)
<b>Sub-total</b>	<b>–</b>	<b>(5)</b>	<b>5</b>	<b>(2)</b>	<b>(3)</b>	<b>–</b>	<b>(5)</b>
<b>Net</b>	<b>223</b>	<b>2,161</b>	<b>1,287</b>	<b>2,263</b>	<b>3,413</b>	<b>1,391</b>	<b>10,738</b>

\* Less than United States dollar ("USD") half a million.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 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 results 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. 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 of structure and maturities (repricing) 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.

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

	Impact on profit	
	Year ended December 31, 2020 USD million	Year ended December 31, 2019 USD million
+ 25 basis points	18	11
- 25 basis points	(18)	(11)

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 5. Financial risk management – continued

#### 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, 2020 and 2019. 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.

#### Exchange rate sensitivity analysis

The following table shows the impact of an appreciation or depreciation of USD against foreign currencies as at December 31, 2020 and December 31, 2019 assuming that all other variables remain constant.

	Impact on profit	
	Year ended December 31, 2020 USD million	Year ended December 31, 2019 USD million
10% appreciation	—*	—*
10% depreciation	—*	—*

\* Less than United States dollar ("USD") half a million.

#### Other price risk

Other price risk is primarily about the unfavourable changes of fund price and other financial instruments prices that cause financial losses. Quantitatively, the 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 ongoing 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.

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 among 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.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 6. Fair value of financial assets and liabilities

The Bank's financial instruments that are measured subsequent to initial recognition at fair value, mainly included financial liabilities designated at fair value through profit and loss, derivatives and financial assets at fair value through profit or loss as at December 31, 2020.

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

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

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

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

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

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

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

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

	Level 1 USD million	Level 2 USD million	Level 3 USD million	Total USD million
<b>As at December 31, 2020</b>				
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	–	400	–	400
Debt instruments at FVTOCI	131	–	–	131
Derivatives	–	27	–	27
<b>Total financial assets measured at fair value</b>	<b>131</b>	<b>427</b>	<b>–</b>	<b>558</b>
<b>Financial liabilities</b>				
Derivatives	–	98	–	98
Financial liabilities designated at fair value	–	5,556	–	5,556
<b>Total financial liabilities measured at fair value</b>	<b>–</b>	<b>5,654</b>	<b>–</b>	<b>5,654</b>

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 6. Fair value of financial assets and liabilities – continued

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

	Level 1 USD million	Level 2 USD million	Level 3 USD million	Total USD million
<b>As at December 31, 2019</b>				
<b>Financial assets</b>				
Derivatives	–	5	–	5
<b>Total financial assets measured at fair value</b>	–	5	–	5
<b>Financial liabilities</b>				
Derivatives	–	12	–	12
Financial liabilities designated at fair value	–	883	–	883
<b>Total financial liabilities measured at fair value</b>	–	895	–	895

There were no transfers between Level 1 and 2 during the year ended December 31, 2020 and 2019.

There were no third-party credit enhancements in the fair value measurement for financial liabilities designated at fair value as at December 31, 2020 and 2019.

#### 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.

	As at December 31,			
	2020		2019	
	Carrying amount USD million	Fair value USD million	Carrying amount USD million	Fair value USD million
<b>Financial assets</b>				
Loans and advances	6,612	6,686	1,545	1,553

#### As at December 31, 2020

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

#### As at December 31, 2019

	Level 1 USD million	Level 2 USD million	Level 3 USD million	Total USD million
<b>Financial assets</b>				
Loans and advances	–	–	1,553	1,553

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.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 7. Net interest income

	For the year ended December 31, 2020 USD million	For the year ended December 31, 2019 USD million
Interest income from banks	149	194
Interest income from loans and advances	100	36
Interest income from debt instruments measured at amortised cost	3	1
Interest income from financial assets held under resale agreements	2	–
Interest income from debt instruments at FVTOCI	–*	–
<b>Total interest income</b>	<b>254</b>	<b>231</b>
Interest expense on bonds issued	(54)	(25)
Interest expense on short-term borrowings	(1)	–*
Interest expense on note payables	(18)	(8)
Interest expense on financial assets sold under repurchase agreements	–*	–
Interest expense on lease liabilities	–*	–*
<b>Total interest expense</b>	<b>(73)</b>	<b>(33)</b>
<b>Net interest income</b>	<b>181</b>	<b>198</b>

\* Less than United States dollar ("USD") half a million.

## 8. Net fee income

	For the year ended December 31, 2020 USD million	For the year ended December 31, 2019 USD million
Front-end fee recognised	2	1
Commitment fee	3	1
<b>Total</b>	<b>5</b>	<b>2</b>

## 9. Net (losses)/gains on financial instruments at fair value through profit or loss

	For the year ended December 31, 2020 USD million	For the year ended December 31, 2019 USD million
Derivatives	(74)	2
Bonds	(115)	20
Money market funds	–*	–
Others (Note 1 below)	(2)	–
<b>Total</b>	<b>(191)</b>	<b>22</b>

The realised losses arising from derivatives financial instruments for the year ended December 31, 2020 were USD 10 million (year ended December 31, 2019: realised gains of USD 4 million).

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

\* Less than United States dollar ("USD") half a million.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 10. Staff costs

	For the year ended December 31, 2020 USD million	For the year ended December 31, 2019 USD million
Salaries and allowances	32	26
Other benefits	9	7
<b>Total</b>	<b>41</b>	<b>33</b>

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, 2020 for the SRP and PRP was USD 6 million (year ended December 31, 2019: USD 5 million) and USD 1 million (year ended December 31, 2019: 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 for the President of the Bank for the year ended December 31, 2020 and 2019. According to Article 11 of the Agreement, the Board of Governors shall determine the salary and terms of the service contract of the President of the Bank.

### 11. Other operating expenses

	For the year ended December 31, 2020 USD million	For the year ended December 31, 2019 USD million
Office expenses	3	3
Operating lease rentals in respect of short-term leases/low value assets	—*	—*
Professional fees	3	5
Auditor's remuneration	1	1
Travel expenses	1	4
IT expenses	4	4
Hospitality expenses	—*	—*
Depreciation and amortisation	2	1
Others	—*	—*
<b>Total</b>	<b>14</b>	<b>18</b>

\* Less than United States dollar ("USD") half a million.

### 12. Other expense

	For the year ended December 31, 2020 USD million	For the year ended December 31, 2019 USD million
Bond issuance costs	9	1
<b>Total</b>	<b>9</b>	<b>1</b>

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 13. Cash and cash equivalents

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Cash on hand	—*	—*
Demand deposit	2,100	226
Time deposit with original maturity within three months	93	797
<b>Total</b>	<b>2,193</b>	<b>1,023</b>

\* Less than United States dollar ("USD") half a million.

## 14. Due from banks other than cash and cash equivalents

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Commercial banks	6,859	6,292
Less: ECL allowance	(4)	—
	<b>6,855</b>	<b>6,292</b>
Less: Time deposit with original maturity within three months	(93)	(797)
<b>Total</b>	<b>6,762</b>	<b>5,495</b>

Reconciliation of provision for due from banks:

	12 month ECL USD million
ECL allowance of due from banks as at January 1, 2020	—
Additions	4
Change in risk parameters	—*
ECL allowance of due from banks as at December 31, 2020	4

\* Less than United States dollar ("USD") half a million.

For the year ended December 31, 2020, the additions to the ECL allowance of USD 4 million was due to origination of due from banks with gross carrying amount of USD 6,605 million.

## 15. Derivative financial assets/liabilities

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

The Bank entered into derivative contracts for the new panda bond issued in February, 2019, the coronavirus combating bond issued in April, 2020 and the 2020 RMB bond (Series 2) issued in July, 2020 that were paired with swaps of which the total notional amounts are RMB 3 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 (series 1) issued in June, 2020, the Euro Medium Term Note (series 2) issued in September, 2020 and new note issued in December, 2020 that were paired with swaps of which the total notional amounts are USD 1.5 billion, USD 2 billion and USD 50 million respectively, to convert the issuance proceeds into the interest rate structure sought by the Bank.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 15. Derivative financial assets/liabilities – continued

Besides, the Bank has entered into derivative contracts for loans and advances, debt instruments measured at amortised cost, debt instruments measured 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.

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, 2020 and 2019.

As at December 31, 2020	Notional USD USD million	Fair Value Assets USD million	Fair Value Liabilities USD million
Interest rate swap	5,301	13	19
Cross currency swap	1,021	14	52
Forward contract	536	–	27
<b>Total</b>	<b>6,858</b>	<b>27</b>	<b>98</b>

As at December 31, 2019	Notional USD USD million	Fair Value Assets USD million	Fair Value Liabilities USD million
Interest rate swap	733	5	–*
Cross currency swap	359	–	10
Forward contract	271	–	2
<b>Total</b>	<b>1,363</b>	<b>5</b>	<b>12</b>

\* Less than United States dollar ("USD") half a million.

Interest Rate Swap: As at December 31, 2020, fixed rates received ranged from 0.353% to 3.32% (December 31, 2019: 3.00% to 3.32%), and floating reference rates paid were 3-month Shibor or 6-month Libor (December 31, 2019: 3-month Shibor). Besides, fixed rates paid ranged from 0.2635% to 0.384% (December 31, 2019: N/A), and floating reference rate received was 3-month Libor (December 31, 2019: N/A).

Cross currency swap: As at December 31, 2020 and 2019, the Bank's cross currency swap is related to swap contracts with exchange of RMB, South African rand ('ZAR'), Swiss franc ('CHF') or Russian roubles ('RUB') to USD. As at December 31, 2020, fixed rates received ranged from 1.88% to 3.07% (December 31, 2019: 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, 2019: 6-month USD Libor). Besides, fixed rate paid was 5.945% (December 31, 2019: N/A), and floating reference rates received were 6-month USD Libor or 3-month USD Libor (December 31, 2019: N/A).

Forward contract: As at December 31, 2020 and 2019, the exchange rates of forward contracts with exchange of RMB to USD were ranged from USD 1: RMB 6.6818 to USD 1: RMB 7.0965 and from USD 1: RMB 7.0316 to USD 1: RMB 7.0935, respectively. 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.

### 16. Financial assets held under resale agreements

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Analysed by collateral type:		
– Bonds	66	–
<b>Total</b>	<b>66</b>	<b>–</b>

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 17. Financial assets at fair value through profit or loss

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Mandatorily measured at FVTPL:		
– Money market fund	400	–
– Private equity fund	–*	–
<b>Total</b>	<b>400</b>	<b>–</b>

\* Less than United States dollar ("USD") half a million.

## 18. Debt instruments at fair value through other comprehensive income

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Government bonds	101	–
Corporate bond	30	–
<b>Total</b>	<b>131</b>	<b>–</b>

As at December 31, 2020, the 12-month ECL allowance recognised for debt instruments at FVTOCI is less than USD half of a million.

## 19. Debt instruments measured at amortised cost

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Policy bank bonds	207	27
Commercial bank bond	557	7
Less: ECL allowance	(1)	–
<b>Net carrying amount</b>	<b>763</b>	<b>34</b>

Reconciliation of provision for debt instruments measured at amortised cost:

	12 month ECL USD million
ECL allowance of debt instruments measured at amortised costs as at January 1, 2020	–
Additions	1
Change in risk parameters	–*
ECL allowance of debt instruments measured at amortised costs as at December 31, 2020	1

\* Less than United States dollar ("USD") half a million.

For the year ended December 31, 2020, the additions to the ECL allowance of USD 1 million was due to purchase of debt instruments measured at amortised cost with gross carrying amount of USD 736 million.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 20. Loans and advances

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Principal	6,609	1,539
Interest receivable	34	11
Gross carrying amount	6,643	1,550
Less: ECL allowance	(31)	(5)
<b>Net carrying amount</b>	<b>6,612</b>	<b>1,545</b>

As at December 31, 2020, the net carrying amount of loans and advances denominated in RMB or CHF amounted to USD 2,079 million (December 31, 2019: USD 136 million).

Reconciliation of provision for loans raised:

	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total 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	18	13	31

	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total USD million
ECL allowance of loans as at January 1, 2019	3	–	3
Additions	1	–	1
Derecognition	–*	–	–*
Change in risk parameters	1	–	1
ECL allowance of loans as at December 31, 2019	5	–	5

\* Less than United States dollar ("USD") half a million.

For the year ended December 31, 2020, the additions to the ECL allowance of USD 19 million (December 31, 2019: USD 1 million) was due to origination of loans and advances with gross carrying amount of USD 5,415 million (December 31, 2019: USD 925 million).

For the year ended December 31, 2020, the derecognition to the ECL allowance of USD 1 million (December 31, 2019: less than USD half of a million) was due to repayment of loans and advances with gross carrying amount of USD 331 million (December 31, 2019: USD 7 million).

As at December 31, 2020	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total USD million
Gross carrying amount	6,342	301	6,643

As at December 31, 2019	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total USD million
Gross carrying amount	1,550	–	1,550

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 21. Paid-in capital receivables

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Balance of nominal amounts of receivable at the beginning of year (Note 1 below)	3,800	5,009
Less:		
Instalments received during the year (Note 2 below)	(1,888)	(1,209)
Total nominal amounts of receivable at the end of the year (Note 4 below)	1,912	3,800
Less:		
Interest on paid-in capital receivables to be unwound in the future years (Note 3 below)	(27)	(86)
Balance at the end of the year	1,885	3,714

### Note 1:

As disclosed in Note 30, the Bank established the rights to receive the initial subscribed paid-in capital of 100,000 shares, which total USD 10 billion upon the effective date of the Agreement. Each founding member shall initially and equally subscribe to 20,000 shares that correspond to paid-in capital. The payment of the amount initially subscribed to the paid-in capital stock of the Bank shall be made in seven instalments. The first instalment of paid-in capital shall be paid by each member within six months of the Agreement coming into force and the second instalment shall become due 18 months from the date the Agreement came into force. The remaining five instalments shall each become due successively one year from the date on which the preceding instalment becomes due.

### Note 2:

The instalment received in the year ended December 31, 2020 resulted from the receipts of the fifth instalment, and partial receipts of the sixth and seventh instalment ahead of schedule.

### Note 3:

The discounting method is applied to derive the interest to be unwound over the instalment period. The balance includes an initial discount of USD 622 million less USD 566 million of accumulated unwinding interest already unwound on the paid-in capital receivables (December 31, 2019: USD 517 million) and USD 29 million of accumulated early payment impact on discounting, which was credited to reserves as an equity transaction by the end of December 31, 2020 (December 31, 2019: USD 19 million).

### Note 4:

As at December 31, 2020, 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 292 million, and that will become due over one year amount to an undiscounted value of USD 1,620 million.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 22. Property and equipment

	IT equipment USD million	Appliance USD million	Vehicle USD million	Furniture USD million	Others USD million	Total USD million
Cost as at January 1, 2020	2	—*	—*	—*	—*	2
Additions during the year	1	—*	—*	—*	—	1
Disposal for the year	—*	—	—	—	—	—*
<b>Cost at December 31, 2020</b>	<b>3</b>	<b>—*</b>	<b>—*</b>	<b>—*</b>	<b>—*</b>	<b>3</b>
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)
<b>Net book value as at December 31, 2020</b>	<b>1</b>	<b>—*</b>	<b>—*</b>	<b>—*</b>	<b>—*</b>	<b>1</b>

	IT equipment USD million	Appliance USD million	Vehicle USD million	Furniture USD million	Others USD million	Total USD million
Cost as at January 1, 2019	1	—*	—*	—*	—*	1
Additions during the year	1	—	—	—	—	1
Disposal for the year	—*	—	—	—	—	—*
<b>Cost at December 31, 2019</b>	<b>2</b>	<b>—*</b>	<b>—*</b>	<b>—*</b>	<b>—*</b>	<b>2</b>
Accumulated depreciation as at January 1, 2019	—*	—*	—*	—*	—*	—*
Depreciation for the year	(1)	—*	—*	—*	—*	(1)
Disposals/written-off	—*	—	—	—	—	—*
Accumulated depreciation as at December 31, 2019	(1)	—*	—*	—*	—*	(1)
<b>Net book value as at December 31, 2019</b>	<b>1</b>	<b>—*</b>	<b>—*</b>	<b>—*</b>	<b>—*</b>	<b>1</b>

\* Less than United States dollar ("USD") half a million.

### 23. Intangible assets

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Cost as at the beginning of the year	2	1
Additions for the year	—*	1
As at the end of the year	2	2
<b>Accumulated amortisation</b>		
As at the beginning of the year	—*	—*
Amortisation for the year	(1)	—*
As at the end of the year	(1)	—*
<b>Net book value as at the end of the year</b>	<b>1</b>	<b>2</b>

\* Less than United States dollar ("USD") half a million.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 24. Other assets

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Commitment fee receivables	1	1
Other receivables	—*	—*
Others (Note 1 below)	2	1
<b>Total</b>	<b>3</b>	<b>2</b>

\* Less than United States dollar ("USD") half a million.

### Note 1:

Others mainly include prepayment.

## 25. Financial liabilities designated at fair value through profit or loss

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Bond		
– Principal	5,426	896
– Interest payable	45	17
– Fair value adjustment	85	(30)
<b>Total</b>	<b>5,556</b>	<b>883</b>

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

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 a 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 a 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 a 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%.

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, 2020 and 2019. The contractual principal amount to be paid at maturity in original currency are RMB 13 billion for RMB denominated bonds and USD 3.55 billion for USD denominated notes respectively.

As at December 31, 2020, the carrying amount of financial liabilities designated at FVTPL denominated in RMB amounted to USD 2 billion (December 31, 2019: USD 883 million).

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 26. Borrowings

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Unsecured short-term borrowings	–	110
<b>Total</b>	<b>–</b>	<b>110</b>

During the year ended December 31, 2020, the unsecured bank borrowing bearing the fixed rate of 1.935% per annum was repaid.

### 27. Note payables

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Note payables	2,815	623
<b>Total</b>	<b>2,815</b>	<b>623</b>

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

### 28. Contract liabilities

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Deferred income (Note 1 below)	28	15
<b>Total</b>	<b>28</b>	<b>15</b>

Note 1:

The deferred income disclosed above relates to the unsatisfied performance obligations of front-end fees as at December 31, 2020 and 2019. Revenue recognised for the year ended December 31, 2020 that was included in the contract liability balance at the beginning of the year is USD 2 million (year ended December 31, 2019: less than USD half of a million).

As at January 1, 2019, contract liabilities amounted to USD 4 million.

### 29. Other liabilities

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Employee benefits payable	–*	–*
Accrued expenses	4	4
Impairment provision of loan commitments	8	1
Annual leave provision	2	1
<b>Total</b>	<b>14</b>	<b>6</b>

\* Less than United States dollar ("USD") half a million.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 29. Other liabilities – continued

Reconciliation of provision for loan commitments

	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total 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	4	4	8

	12 month ECL USD million	Lifetime ECL – not credit-impaired USD million	Total USD million
ECL allowance of loan commitments as at January 1, 2019	1	–	1
Additions	1	–	1
Derecognition	(1)	–	(1)
Change in risk parameters	–*	–	–*
ECL allowance of loan commitments as at December 31, 2019	1	–	1

\* Less than United States dollar ("USD") half a million.

For the year ended December 31, 2020, the additions to the ECL allowance of USD 7 million (December 31, 2019: USD 1 million) was due to origination or increase in expected drawdown of loan commitments within 12 months of December 31, 2020 of USD 2,609 million (December 31, 2019: USD 1,909 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, is set out in the following table. There is no amendment to the terms of subscription payment in the Agreement as at December 31, 2020. The voting power of each member shall be equal to the number of its subscribed shares in the capital stock of the Bank according to the Agreement.

	As at December 31, 2020		As at December 31, 2019	
	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	(500,000)	(50,000)	(500,000)	(50,000)
Total subscribed capital	500,000	50,000	500,000	50,000
Less: callable capital	(400,000)	(40,000)	(400,000)	(40,000)
Total paid in capital	100,000	10,000	100,000	10,000

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 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:

As at December 31, 2020	Total shares Numbers	Total capital USD million	Callable capital USD million	Paid-in capital USD million	Paid-in capital <sup>1</sup> 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
<b>Total</b>	<b>500,000</b>	<b>50,000</b>	<b>40,000</b>	<b>10,000</b>	<b>8,088</b>	<b>1,912</b>

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

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

As at December 31, 2020, all paid in capital from founding members was received in accordance with the Articles, and partial receipts relating to the sixth instalment and seventh instalment have been received ahead of schedule.

### 31. Reserves

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Capital reserve (Note 1 below)	–*	–
Debt instrument revaluation reserve	1	–
Other reserve (Note 2 below)	(27)	(86)
<b>Total</b>	<b>(26)</b>	<b>(86)</b>

\* Less than United States dollar ("USD") half a million.

#### Note 1:

During the year ended December 31, 2020, the Bank received cash contributions amounting to 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 reserve mainly represent the difference on the present value of paid-in receivables and the nominal amounts of subscribed paid-in capital arisen from the instalment payments of the subscribed paid-in capital, which is regarded as an equity transaction. The subsequent unwinding of interest on paid-in capital receivables is reclassified from retained earnings to other reserves immediately following the unwinding treatment in the relevant accounting period.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 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, 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	
Paid-in capital receivables	3,714	(1,888)	49	10	1,885
<b>Total assets from financing activities</b>	<b>3,714</b>	<b>(1,888)</b>	<b>49</b>	<b>10</b>	<b>1,885</b>

	As at January 1, 2020 USD million	Net financing cash inflows/ (outflows) USD million	Non-cash movements			Operating cash outflows <sup>1</sup> USD million	As at December 31, 2020 USD million
			Interest accrued movements USD million	Fair value changes and others USD million	Foreign exchange movements USD million		
Bond	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	–*	–*	–*	–*	–*	–*	–*
<b>Total liabilities from Financing activities</b>	<b>1,616</b>	<b>6,609</b>	<b>73</b>	<b>115</b>	<b>–*</b>	<b>(42)</b>	<b>8,371</b>

\* Less than United States dollar ("USD") half a million.

<sup>1</sup> USD 26 million represents an interest payment for the interest portion for the bond that 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 that 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 that is recorded in the Bank's statement of cash flows as net cash used in operating activities.

	As at January 1, 2019 USD million	Financing cash inflows USD million	Non-cash movements		As at December 31, 2019 USD million
			Unwinding of interest USD million	Impact of early payment USD million	
Paid-in capital receivables	4,847	(1,209)	72	4	3,714
<b>Total assets from financing activities</b>	<b>4,847</b>	<b>(1,209)</b>	<b>72</b>	<b>4</b>	<b>3,714</b>

	As at January 1, 2019 USD million	Net financing cash inflows/ (outflows) USD million	Non-cash movements			Operating cash outflows <sup>2</sup> USD million	As at December 31, 2019 USD million
			Interest accrued movements USD million	Fair value changes and others USD million	Foreign exchange movements USD million		
Short-term borrowings	–	110	–*	–	–	–	110
Bond	444	448	25	(20)	–	(14)	883
Note payables	–	618	8	–	–	(3)	623
Lease liabilities	–*	–*	–*	–	–*	–*	–*
<b>Total liabilities from financing activities</b>	<b>444</b>	<b>1,176</b>	<b>33</b>	<b>(20)</b>	<b>–*</b>	<b>(17)</b>	<b>1,616</b>

\* Less than United States dollar ("USD") half a million.

<sup>2</sup> USD 14 million represents an interest payment for the bond that is recorded in the Bank's statement of cash flows as net cash used in operating activities. USD 3 million represents an interest payment for the interest portion of note payables that is recorded in the Bank's statement of cash flows as net cash used in operating activities.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 33. Financial instruments

Categories of financial instruments

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
<b>Financial assets</b>		
Financial assets at fair value through profit or loss	427	5
Debt instruments at FVTOCI	131	–
Financial assets measured at amortised cost	18,282	11,812
	<b>18,840</b>	<b>11,817</b>
<b>Financial liabilities</b>		
Financial liabilities at fair value through profit or loss	5,654	895
Financial liabilities measured at amortised cost	2,819	627
	<b>8,473</b>	<b>1,522</b>

### 34. Commitments

#### 1) Capital commitments

As at December 31, 2020, the Bank had no irrevocable capital expenditure commitments.

#### 2) Credit Commitments

	As at December 31, 2020 USD million	As at December 31, 2019 USD million
Letters of effectiveness signed	7,653	6,920
Letter of effectiveness yet to be signed	1,620	907
<b>Total</b>	<b>9,273</b>	<b>7,827</b>

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, with:

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

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 35. Related party disclosure – continued

The name and relationship with founding member governments are disclosed below. As at December 31, 2020 and 2019, no transactions, individually or collectively with a government are considered significant to the Bank.

### (1) Name and relationship

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

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

According to the Agreement between the Government of the Russian Federation and the Bank on the Hosting of the New Development Bank Eurasian Regional Center ('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, 2020 are set out in Note 31.

Details of the paid-in capital receivables as at December 31, 2020 and 2019 are set out in Note 21, and unwinding of interest on paid-in capital receivables for the year ended December 31, 2020 and 2019 are set out in the statement of profit or loss and other comprehensive income.

### (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, 2020:

Name	Country	Position
Marcos Prado Troyjo	Brazil	President (with effect from July 7, 2020)
Vaman Kundapur Kamath	India	President (up to July 6, 2020)
Anil Kishora	India	Vice President; Chief Risk Officer (with effect from July 7, 2020)
Sarquis Jose Buainain Sarquis	Brazil	Vice President; Chief Risk Officer (up to July 6, 2020)
Vladimir Kazbekov	Russia	Vice President; Chief Administrative Officer
Xian Zhu	China	Vice President; Chief Operations Officer
Leslie Warren Maasdorp	South Africa	Vice President; Chief Financial Officer

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

	For the year December 31, 2020 USD million	For the year December 31, 2019 USD million
Salary and allowance	3	2
Staff retirement plan	—*	—*
Post-retirement insurance plan	—*	—*
Other short-term benefits	1	—*
<b>Total</b>	<b>4</b>	<b>2</b>

\* Less than United States dollar ("USD") half a million.

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 36. Segment information

For the year ended December 31, 2020, 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 fulfil 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, 2020, the NDB-PPF had received contributions amounting to USD 7 million (December 31, 2019: USD 7 million). The Bank has not earned any income from NDB-PPF for the year ended December 31, 2020 and 2019.

### 38. Reclassification of comparative figures

For the year ended December 31, 2020, the Bank presented interest received on debt instruments measured at amortised cost and proceeds from redemption of debt instruments measured at amortised cost separately in the net cash used in operating activities and net cash used in investing activities, respectively, in the statement of cash flows. As a result, USD 1 million has been reclassified from proceeds from redemption of debt instruments measured at amortised cost to interest received on debt instruments measured at amortised cost in the comparative figures of the statement of cash flows for the year ended December 31, 2020 to conform with current year presentation.

For the year ended December 31, 2019, USD 1 million bond issuance costs was included in other operating expenses. The Bank reclassified the bond issuance costs included in other operating expenses, to other expense for the year ended December 31, 2020. As a result, the comparative figure has been reclassified in the statement of profit or loss and other comprehensive income for the year ended December 31, 2020 to conform with current year presentation.

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

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 39. Subsequent events

On December 24, 2020, a loan agreement for USD 1 billion was signed with the Federative Republic of Brazil to finance the Emergency Assistance Program in Combating COVID-19. This agreement became effective on January 15, 2021.

On January 6, 2021, a loan agreement for USD 323 million was signed with the Republic of India to finance Andhra Pradesh Roads and Bridges Reconstruction Project. This agreement became effective on January 26, 2021.

On January 6, 2021, a loan agreement for USD 323 million was signed with the Republic of India to finance Andhra Pradesh Mandal Connectivity and Rural Connectivity Improvement Project. This agreement became effective on January 26, 2021.

On January 21, 2021, a loan agreement for USD 300 million was signed with Mobile Telesystems Public Joint Stock Company to finance Cellular Network and Cloud Services Expansion Project. This agreement became effective on January 21, 2021.

On January 21, 2021, a loan agreement for EUR 100 million was signed with Black Sea Trade and Development Bank to finance Russian Maritime Sector Support Program. This agreement became effective on February 1, 2021.

On March 18, 2021, a loan agreement for CNY 7 billion was signed with the People's Republic of China to finance Emergency Assistance Program in supporting China's Economic Recovery from COVID-19. This agreement became effective on March 18, 2021.

On March 25, 2021, the bank issued a RMB 5 billion bond for a 3-year tenor with an annual fixed coupon rate of 3.22%.

Subsequent to December 31, 2020, the Bank issued several zero-coupon notes with aggregate notional amounts of USD 1.6 billion and one zero-coupon note of EUR 20 million with original maturity date within one year.

Subsequent to December 31, 2020, the paid-in capital due relating to the sixth instalment of USD 292 million was overdue from a founding member.

## 40. Approval of annual financial statements

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



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# **NDB's PPF Financial Statements**

for the Year Ended December 31, 2020

# Independent Auditor's Report

To the Board of  
Governors of the New  
Development Bank  
(the "bank")

## **Opinion**

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

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

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the

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

## **Responsibilities of Management and the Board of Governors of the Bank for the financial statements**

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

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

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

#### **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 judgement 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 NDB-PPF's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the Bank.
- Conclude on the appropriateness of the management of the Bank's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NDB-PPF's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained

up to the date of our auditor's report. However, future events or conditions may cause the NDB-PPF to cease to continue as a going concern.

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

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

*Deloitte Touche Tohmatsu CPA LLP*

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

March 30, 2021

## Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2020

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

## Statement of Financial Position

As at December 31, 2020

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

The financial statements on pages 144 to 157 were approved and authorised for issuance by the Board of Governors on March 30, 2021 and signed on their behalf by:



**Marcos Prado Troyjo**  
President



**Leslie Warren Maasdorp**  
Chief Financial Officer



**Paritosh Pandit**  
Chief Financial Controller

## Statement of Changes in Equity

For the year ended December 31, 2020

Expressed in thousands of USD	Note	Contribution	Retained earnings	Total
As at January 1, 2020		7,000	235	7,235
Profit for the year		–	48	48
Total comprehensive income for the year		–	48	48
<b>As at December 31, 2020</b>		<b>7,000</b>	<b>283</b>	<b>7,283</b>

Expressed in thousands of USD	Note	Contribution	Retained earnings	Total
As at January 1, 2019		6,500	89	6,589
Profit for the year		–	146	146
Total comprehensive income for the year		–	146	146
Contribution	10	500	–	500
<b>As at December 31, 2019</b>		<b>7,000</b>	<b>235</b>	<b>7,235</b>

## Statement of Cash Flows

For the year ended December 31, 2020

Expressed in thousands of USD	Year ended December 31, 2020	Year ended December 31, 2019
<b>Operating activities</b>		
Profit for the year	48	146
Operating cash flows before changes in operating assets and liabilities	48	146
Net decrease/(increase) in due from banks other than cash and cash equivalents	4,000	(4,000)
Net increase in other assets	(3)	(1)
Net increase/(decrease) in other liabilities	15	(2)
<b>Net cash from/(used in) operating activities</b>	<b>4,060</b>	<b>(3,857)</b>
<b>Financing activities</b>		
Contribution received	–	500
<b>Net cash from financing activities</b>	<b>–</b>	<b>500</b>
Net increase/(decrease) in cash and cash equivalents	4,060	(3,357)
Cash and cash equivalents at the beginning of the year	3,262	6,619
<b>Cash and cash equivalents at the end of the year</b>	<b>7,322</b>	<b>3,262</b>

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 1. General information

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

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

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

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

## 2. Application of international financial reporting standards

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

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

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

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

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

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 2. Application of international financial reporting standards – continued

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

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

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

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

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

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

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

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

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

### 3. Basis of preparation and significant accounting policies

#### Basis of preparation

The annual financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, and in accordance with the accounting policies set out below that 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 NDB-PPF has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

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

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 3. Basis of preparation and significant accounting policies – continued

### Basis of preparation – continued

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

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

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

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

### Revenue

#### Interest income

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

### Financial instruments

#### Initial recognition and measurement

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

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

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

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

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 3. Basis of preparation and significant accounting policies – continued

#### Financial instruments – continued

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

##### Financial assets

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

##### Financial assets measured at amortised cost

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

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

The NDB-PPF applies the effective interest method to the amortised costs of a financial asset. Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at fair value through other comprehensive income ('FVTOCI').

##### Financial assets classified as at FVTOCI

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

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

##### Financial assets at FVTPL

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

A financial asset is held for trading if:

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

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'net gains on financial instruments at fair value through profit or loss' line item.

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 3. Basis of preparation and significant accounting policies – continued

### Financial instruments – continued

#### Classification and subsequent measurement of financial instruments – continued

##### Financial liabilities and equity

###### Classification as debt or equity

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

###### Equity instruments

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

###### Financial liabilities

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

###### Financial liabilities at FVTPL

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

A financial liability is held for trading if:

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

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

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL
- It forms part of a group of financial liabilities, which is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the NDB-PPF's key management personnel.

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

###### Financial liabilities at amortised cost

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

### Impairment

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

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

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 3. Basis of preparation and significant accounting policies – continued

#### Financial instruments – continued

##### Impairment – continued

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

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

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

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

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

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

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

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

#### Derecognition of financial instruments

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

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

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

#### Cash and cash equivalents

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

# Notes to the Annual Financial Statements

For the year ended December 31, 2020

## 4. Financial risk management

### Overview

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

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

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

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

### Credit risk

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

## 5. Fair value of financial assets and liabilities

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

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

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 6. Interest income

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

### 7. Operating expenses

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

### 8. Cash and cash equivalents

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

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 9. Due from banks other than cash and cash equivalents

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

### 10. Contribution

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

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

## Notes to the Annual Financial Statements

For the year ended December 31, 2020

### 11. Related party disclosures

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

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

### 12. Subsequent events

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

### 13. Approval of annual financial statements

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

## List of initialisms and definitions

Acronym/Defined Term	Definition
<b>2030 Agenda</b>	United Nations 2030 Agenda for Sustainable Development
<b>ADB</b>	Asian Development Bank
<b>AIIB</b>	Asian Infrastructure Investment Bank
<b>AoA or the Agreement</b>	Articles of Agreement
<b>AE</b>	Advanced Economies
<b>AI</b>	Artificial Intelligence
<b>AML</b>	Anti-Money Laundering
<b>APAC</b>	Asia-Pacific
<b>ARC Committee</b>	Audit, Risk and Compliance Committee
<b>BHRC Committee</b>	Budget, Human Resources and Compensation Committee
<b>BNDES</b>	Brazilian Development Bank
<b>BoD</b>	Board of Directors
<b>BoG</b>	Board of Governors
<b>BRICS</b>	Brazil, Russia, India, China and South Africa
<b>CAI</b>	China-EU Investment Agreement
<b>CHF</b>	Swiss Franc
<b>CIC</b>	Credit and Investment Committee
<b>CMF</b>	Capital Management Framework
<b>CO2</b>	Carbon Dioxide
<b>CPTPP</b>	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
<b>CUR</b>	Capital Utilisation Ratio
<b>EAD</b>	Exposure at Default
<b>ECL</b>	Expected Credit Loss
<b>ECP</b>	Euro Commercial Paper
<b>EDB</b>	Eurasian Development Bank
<b>EFD 2020-2031</b>	Brazil's Federal Development Strategy 2020-2031
<b>EMDCs</b>	Emerging Market Economies and Developing Countries
<b>EMEA</b>	Europe, Middle East and Africa
<b>EMTN</b>	Euro Medium Term Note
<b>ESF</b>	Environment and Social Framework
<b>ESG</b>	Environmental, Social and Governance
<b>ERC</b>	Eurasian Regional Centre
<b>ESKOM</b>	Eskom Holdings SOC Ltd
<b>EUR</b>	Euro
<b>FBS</b>	Federal Bailiffs' Service (Russia)
<b>FC</b>	Finance Committee
<b>FVTOCI</b>	Fair Value through other Comprehensive Income
<b>FVTPL</b>	Fair Value through Profit and Loss

## List of initialisms and definitions – continued

Acronym/Defined Term	Definition
<b>GoB</b>	Government of the Federative Republic of Brazil
<b>GDP</b>	Gross Domestic Product
<b>GHG</b>	Greenhouse Gas
<b>GoI</b>	Government of the Republic of India
<b>GoRF</b>	Government of the Russian Federation
<b>GoSA</b>	Government of the Republic of South Africa
<b>GWh</b>	Gigawatts-hour
<b>HDI</b>	Human Development Index
<b>IASs</b>	International Accounting Standards
<b>IASB</b>	International Accounting Standards Board
<b>IAD</b>	Internal Audit Division
<b>IDC</b>	Industrial Development Corporation of South Africa
<b>IE</b>	Independent Evaluation Office
<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>IFRSs</b>	International Financial Reporting Standards
<b>IIB</b>	International Investment Bank
<b>IMF</b>	International Monetary Fund
<b>INR</b>	Indian rupee
<b>ISAs</b>	International Standards on Auditing
<b>ISDA</b>	International Swaps and Derivatives Association
<b>IT</b>	Information Technology
<b>JSSP</b>	Judicial System Support Project (Russia)
<b>km</b>	Kilometre
<b>kWh</b>	Kilowatt-hour
<b>KMP</b>	Key Management Personnel
<b>LEED-NC</b>	Leadership in Energy and Environmental Design-New Construction
<b>LGD</b>	Loss Given Default
<b>m<sup>3</sup></b>	Cubic metre
<b>Management</b>	President and Vice Presidents
<b>MCC</b>	Moscow City Court
<b>MDB</b>	Multilateral Development Bank
<b>mg</b>	Milligram
<b>MVA</b>	Mega-volt ampere
<b>MW</b>	Megawatt
<b>MWh</b>	Megawatt-hour
<b>NDB or the Bank</b>	New Development Bank
<b>NII</b>	Net Interest Income
<b>OECD</b>	Organisation for Economic Co-operation and Development

## List of initialisms and definitions – continued

Acronym/Defined Term	Definition
<b>Paris Agreement</b>	Paris Agreement on Climate Change
<b>PIT-PD</b>	Point-in-time Probability of Default
<b>PPF</b>	Project Preparation Fund
<b>PRP</b>	Post Retirement Plan
<b>RCEP</b>	Regional Economic Comprehensive Partnership
<b>Reg S</b>	Regulation S for U.S. and Non-U.S. companies to raise capital outside the U.S.
<b>RE-IPP</b>	Renewable Energy Independent Power Producer
<b>RMB</b>	Chinese renminbi
<b>RUB</b>	Russian rouble
<b>SANRAL</b>	South African National Roads Agency SOC Ltd
<b>SDG</b>	Sustainable Development Goal
<b>SMEs</b>	Small and medium-sized enterprises
<b>SO<sub>2</sub></b>	Sulphur Dioxide
<b>SOE</b>	State-owned Enterprise
<b>SPPI</b>	Solely Payments of Principal and Interest
<b>SRP</b>	Staff Retirement Plan
<b>TCTA</b>	Trans-Caledon Tunnel Authority
<b>UNDP</b>	United Nations Development Program
<b>USD</b>	United States dollar
<b>USSR</b>	Union of Soviet Socialist Republics
<b>VaR</b>	Value-at-Risk
<b>WARR</b>	Weighted Average Risk Rating
<b>YoY</b>	Year-on-year
<b>ZAR</b>	South African rand