New Development Bank

Policy on Transactions without Sovereign Guarantee*

Owner: Operations Division

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***   Except Loans without Sovereign Guarantee to National Financial Intermediaries**

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Abbreviations

Board/BOD	Board of Directors of New Development Bank
CIC	Credit and Investment Committee
FI	Financial Intermediary
MFF	Multi Tranche Finance Facility
NDB	New Development Bank
ORM	Operations Review Meeting
PPP	Public Private Partnership
RM	Risk Management
TA	Technical Assistance
TAM	Transaction Appraisal Memorandum
VP&COO	Vice President and Chief Operations Officer

New Development Bank: Policy on Transactions without Sovereign Guarantee[1]

A. Introduction

1. The Articles of Agreement of the New Development Bank ("the Bank") provide the following general mandate that applies to transactions (excluding Loans to national financial intermediaries) without sovereign guarantee (henceforth referred to as non-sovereign transactions): Article 19 (a): "The Bank may guarantee, participate in, make loans or support through any other financial instrument, public or private projects, including public-private partnerships, in any borrowing member country, as well as invest in the equity, underwrite the equity issue of securities, or facilitate the access of international capital markets…"; Article 20 (c): "The Bank shall seek to maintain reasonable diversification in its investments in equity capital..."; Article 21 (i): "…the Bank shall apply sound banking principles to all its operations…and have in due regard the risks involved; Article 21 (vii) "…the Bank shall…ensure that the proceeds…are used only for the purposes for which the loan or the equity investment was granted…"; Article 22 (a): "…the contract shall establish the terms and conditions for the loan, guarantee or equity investment…in accordance with the policies established by the Board of Directors...".

2. NDB's transactions without sovereign guarantee (non-sovereign transactions) provide direct funding to and/or mitigate risk of entities, or for projects or business activities in member countries and other emerging economies and developing countries.[2] The Bank's approach to non-sovereign transactions is based on the principles of sustainable economic development, sound banking, risk based and commercially focused approach, fiduciary responsibility, value addition and not crowding out commercial banks and other national financial institutions, complementing efforts of existing multilateral/regional financial institutions, international good practices and, a clearly laid down and well-understood procedure.

3. The Policy on Transactions without Sovereign Guarantee (the Policy)[3] is divided into two parts: Part 1 includes (a) the key imperatives; (b) eligible clients; (c) expenditures which can be financed; and (d) forms of financing and their key terms. The objective of Part 1 is to delineate the overall framework for non-sovereign transactions; and Part 2 sets out (a) the business processes; (b) responsibilities for the various functions of the Bank; and (c) effectiveness and review of the Policy. The Policy is

[1] Except Loans without Sovereign Guarantee to National Financial Intermediaries.

[2] Include all transactions other than those covered by the Policy on Loans with Sovereign Guarantee and Policy on Loans without Sovereign Guarantee to National Financial Intermediaries.

[3] Applies only to the banking portfolio. The credit process for treasury is not included in this Policy.

approved by NDB's Board of Directors (BOD). NDB Management issues operational guidelines to specify detailed procedures and rules for preparing transactions without sovereign guarantee for NDB approval, and managing the transactions after their approval.

PART 1 : NON-SOVEREIGN TRANSACTION FRAMEWORK

B. Preamble

4. This Policy seeks to promote sustainable economic development in BRICS and other emerging economies and developing countries by catalyzing financial support to infrastructure and sustainable development projects which are implemented by eligible clients as included in this Policy.[4] While doing so, the objective is also to generate adequate returns from transactions which (i) promote sustainable development; (ii) enhance opportunities for trans-border cooperation among BRICS and with other emerging market economies; (iii) are appropriately structured; (iv) ensure returns commensurate with the risks taken; (v) are economically, financially and commercially viable; (vi) have significant additionality and development impact but limited access to funds at reasonable terms; and (vii) advance international good practices.

C. Key imperatives for non-sovereign transactions

a. Developmental impacts

5. Apart from financial and economic viability, the non-sovereign transactions need to have a clear and meaningful developmental impact and demonstrate additionality through NDB funding, including by (i) influencing project design; (ii) augmenting the project and financing structure to make it more financially viable, environmentally and socially sustainable; (iii) creating new jobs in economically backward areas; (iv) enhancing delivery of services; (v) imparting better skills and/or technology; and (vi) raising the standards of corporate governance.

b. Harmony with country partnership plan and policies of NDB

6. The country partnership plan primarily aligns the sector and thematic focus of NDB's operations in a member country with the country's own strategic priorities and development needs, as well as the objectives of NDB's General Strategy. Non-sovereign transactions need to (i) be consistent with the strategic objectives and priorities of the country partnership plan, (ii) strengthen private sector development including by promoting public-private partnerships and other innovative financing partnership arrangements, and (iii) comply with all applicable NDB's and national

[4] Brazil, India, Russia, China and South Africa are termed as BRICS.

regulations/legislation—in particular those relating to environment and social aspects, procurement, anti-corruption, and anti-money laundering. Where possible non-sovereign operations seek to promote synergies with sovereign operations. Although individual projects depend largely on market conditions and demand, they are reviewed against the relevant country partnership plans, NDB's General Strategy and any specific sector and sub-sector strategies as may be adopted from time to time.

c. Economic, financial and commercial viability

7. Only financially and economically viable projects will be approved. This Policy, along with paragraph 2 of the Policy on Financial Management, Financial Analysis and Economic Analysis, requires sound financial management based on financial and economic viability, sustainable profitability, comprehensive risk management, and transparency and accountability. This is important as non-sovereign operations are exposed to a full range of operational, commercial and political risks, and ensuring viability in such an environment is a priority. In assessing financial and economic viability, NDB also evaluates the integrity, experience, track record, financial resources and competence of the sponsors and/or shareholders and management. Further, the Policy also requires the application of a pricing framework on the basis of which NDB will determine price to generate a risk adjusted return on capital through a transparent and market linked approach.

d. Working with other financial institutions

8. NDB seeks to complement efforts of multilateral financial institutions, regional financial institutions and such other agencies. Further, NDB endeavors to attract other financing partners by leveraging NDB's financial resources and/or complement, but not substitute for, commercial sources of finance. In doing so, NDB relies on its comparative advantages (including longer term focus) while permitting other financing partners to perform their specific role.

e. Government no-objection and framework agreement

9. NDB undertakes a transaction only if the government of the country has (or governments of countries, where a transaction without sovereign guarantee is implemented in more than one country, have) no objection. Accordingly, the government's no-objection for each transaction is obtained before the transaction is submitted to the Board of Directors for approval. NDB may seek execution of a framework agreement with governments to facilitate streamlined processing of no objection and providing any assurances as may be required by NDB to undertake non-sovereign operations in the member country. In the case of transactions in non-

member countries, NDB seeks assurances from government/governments of non-member country/countries to confirm NDB's privileges and immunities for undertaking each non-sovereign transaction.

f. Innovation and flexibility

10. NDB will apply international good practices in its business processes to encourage innovation, new product development and flexibility, and quality. NDB seeks to ensure its internal processes and systems are client centric, efficient, and value adding.

D. Eligible clients

11. This Policy covers all transactions which are not covered by the NDB Policy on Loans with Sovereign Guarantee and NDB Policy on Loans without Sovereign Guarantee to National Financial Intermediaries (NFI Policy) and have the following transaction features:

a. Type of ownership

12. The proposed recipient of NDB financing must:

i. be incorporated as a company or set up under a special statute in a member country; and

a) have no less than 50% of its shares owned by private entities or individuals (that is, at least 50% of its voting capital is held by individuals or entities that are not owned or controlled by the state or state-owned entities); or

b) be majority owned by sovereign or sub-sovereign government(s) of member country(ies) (that is, more than 50% of the recipient's voting capital is held by entities that are owned or controlled by the sovereign/sub-sovereign or sovereign-owned/sub-sovereign owned entities), provided that the entity is legally and financially autonomous, operates under commercial principles and can enter into valid contracts to source financing independently of the related sovereign and sub-sovereign;

or

ii. be sub-national governments without a guarantee from the sovereign.

b. Location of project

13. To be eligible for NDB financing, the proposed project must :

i. be located in a member country and in a non-disputed territory; or

ii. if located in a non-member emerging economy or developing country, be in accordance with Article 19(e) of the NDB Articles of Agreement.[5]

E. Permissible expenditure

14. NDB finances (up to certain exposure limits—see paragraphs 17 and 20) all reasonable costs of a project including interest expense relating to NDB financing during construction, insurance costs, and project management expenses. In the case of guarantees, the facility would be for the purpose of a loan which finances such costs of the project.

a. Retroactive financing

15. NDB may finance project related eligible expenses up to 10% of loan amount incurred and paid for up to 12 months prior to signing of loan/share purchase agreement. Such financing is possible only (i) with prior agreement between the borrower/investor and NDB; (ii) when goods, works, and consulting services involved in such retroactive financing have been procured in accordance with guidelines and policies of NDB; and (iii) is in compliance with NDB's Environment and Social Framework.

b. Procurement

16. In case of transactions under paragraph 12 (ii) of this Policy, the NDB Procurement Policy as applicable to loans with sovereign guarantee would be applicable). For transactions under paragraphs 12(i. a) and 12 (i. b) under this Policy, NDB Procurement Policy applicable to non-sovereign operations would apply.

F. Forms of financing

17. The aim of the Policy is to leverage private investment and capital flows into commercially viable and economically beneficial projects through direct financing and/or varied forms of risk mitigation instruments. NDB's total exposure to a single project shall not exceed **[25%]** of total project cost or **USD 100 million** whichever is lower. Country, sector/industry, group exposure limits are determined by paragraph 5.2 c. of Credit Risk Management Policy. NDB support would include, but not be

[5] Article 19 (e): The Board of Directors, by special majority, may exceptionally approve a specific public or private project in a non-member emerging economy or developing country involving the operations described in the previous items of this article. Sovereign guaranteed operations in non-members will be priced in full consideration of the sovereign risks involved, given the risk mitigators offered, and any other conditions established as the Board of Directors may decide. A company majority owned by member country citizens but incorporated in a non-member country will be treated as a non-member entity. Such company may seek NDB financing, but only under Article 19 (e) as a non-member entity.

limited to, one or more of the following instruments and prudent variations of the same:

a. Loans

18. NDB provides loans[6] including by way of co-finance together with international, regional and national financial institutions, and commercial banks. The loan can be structured as senior loan, subordinate loan, unsecured loan or be specifically designed depending on the transaction. Loans can be provided for the purpose of development of the capital markets and in accordance with the provisions of the Articles of Agreement. Loans provided for the purpose of re-financing existing loans are also covered under this category provided such transactions involve a satisfactory element of value addition on the part of NDB and the development mandate of NDB is complied with.

b. Guarantees

19. NDB provides guarantees in accordance with its mandate to facilitate co-financing and financing partnerships so as to reduce, eliminate and/or better allocate a range of risks including those faced by commercial financing partners. The guarantees can have characteristics including (i) credit guarantees, political risk guarantees and risk participations with respect to loans and other debt obligations; (ii) un-conditional or conditional guarantees; (iii) guarantees as primary obligor or secondary obligor; (iv) guarantees for part of the underlying financing for a part or entire term of the underlying loan; (v) guarantees for senior, subordinate, mezzanine and convertible debt; (vi) guarantees for shareholder loans; (vii) guarantees for capital market debt instruments; (viii) take-out financing; and (ix) guarantees for other forms of scheduled or contingent liabilities. Guarantees may be undertaken with a wide range of international and local financing partners in the public or private sector, including, but not limited to commercial banks, development banks, insurance companies, pension funds, capital market participants, export credit agencies, export-import banks, suppliers, investors, insurers, reinsurers, and other commercially-oriented entities. NDB will assess on a transactional basis the suitability of financing partners to participate in any guarantee or syndication arrangement.

c. Equity

20. NDB invests in equity for financing the costs of the project. NDB's equity investment in an entity shall not exceed **[25%]** of the entity's issued/subscribed capital, and NDB shall not be the single largest shareholder. Further, as per Article 20 (c) of the Articles of Agreement of NDB, the Bank seeks to maintain reasonable diversification

[6] Initially loans would be provided only in a single currency.

in its investments in equity capital and proposes not to assume responsibility for managing an entity or enterprise in which it has an investment, except where necessary to safeguard its investments.

d. Other instruments

21. NDB may use other instruments such as (i) for investing in special funds, and (ii) subscribing to bonds and debentures. The Management may also adopt any new capital market instruments that it deems necessary.

G. Currency and terms of financing

a. Loans

22. NDB provides foreign exchange denominated loans or national currency loans at floating interest rates (for fixed interest rates, please see paragraph 22 (iii) d below) as follows:

i. With respect to foreign exchange denominated loans, NDB only offers US dollar denominated loans linked to London inter-bank offered rate (LIBOR) in the initial period of operations, until adequate provisions are in place to hedge lending in other convertible currencies through swaps. Euro denominated loans or loans denominated in other foreign currencies, when available, will be linked to European inter-bank offered rate (EURIBOR) or the applicable benchmark rate in other foreign currencies respectively. The lending rates are reset on a periodic basis as determined by the treasury function. The grace period of up to **[4]** years and repayment period of up to **[12]** years will be determined commensurate with project's requirements, its development impact, and the associated risks.

ii. With respect to national currency loans, NDB links them to a benchmark rate (which can also be a market determined benchmark) based on the cost effectiveness with which it can intermediate; and

iii. Interest and other loan charges are levied as follows:

a) Pricing of NDB loans is cost-plus an NDB "lending spread". The lending spread covers operations costs and provides a reasonable "risk adjusted return" on capital adopting a market based approach with due regard to country risk, project risk, maturity premium, probable loan loss provisions etc.;

b) NDB specifies a front-end fee at the time of the approval, to recover the processing and administration cost of loans;

c) NDB specifies a commitment charge at the time of the approval to defray the cost of keeping adequate liquidity to meet the disbursement needs of its clients;

d) Subject to the availability of viable swap market opportunities, NDB may accede to borrower's request to (i) convert all or any portion of disbursed or undisbursed portion of the loan to a currency of choice; (ii) convert the interest rate from floating to fixed or vice versa during the life of the loan; or (iii) establish an interest rate cap or collar on a floating rate.[7] The conversion options will be subject to the relevant provisions of the applicable loan regulations and the conversion guidelines which may be changed unilaterally any time; and

e) The Credit and Investment Committee (CIC) determines, based on the recommendation of the loan processing team (operations division) and the views of risk division, the lending spread, front-end fee, commitment charge on a project-by-project basis, taking into account the business environment in country of operation, project risks and other related factors.

b. Guarantees

23. NDB provides guarantees which are denominated either in foreign exchange or national currencies or both. For guarantees in any currency, all relevant approvals required in the country of operation with respect to the funding by NDB of such guarantees must be in place.

i. Pricing of guarantees comprises fees to compensate for the risk adjusted return on capital, general operations and transaction specific costs of processing and implementation. Pricing can be on an "all-in" basis; market based to take into consideration, among other things the country risk, project risk, maturity premium etc. It may also take into account sovereign counterindemnities, if any;

ii. In relation to syndications, where NDB retains counterparty, underwriting or other syndication related-risk, NDB may charge or pay market-based ceding commissions, risk participation fees, and/or other customary fees;

iii. Tenors of guarantees are subject to risk considerations and market conditions. They should normally not exceed the maximum tenor of NDB's ordinary capital

[7] The term "cap" (or "interest rate cap") means a ceiling that sets an upper limit for the floating interest rate. The term "collar" (or "interest rate collar") means a combination of a ceiling and a floor that sets an upper and lower limit for the floating interest rate.

resources lending operations, as may be adjusted from time to time, and there is no minimum tenor; and

iv. The CIC determines, based on the recommendation of the operations division, the pricing of guarantees on a project-by-project basis, taking into account the business environment and financial market conditions in country of operation, overall risks and other related factors.

c. *Equity*

24. NDB invests in equity based on its fair value.[8] While assessing the fair value, due consideration is given to multiple approaches including those based on (a) absolute value: discounted cash flow, residual income, asset-based approaches; and (b) relative value: similar deals, prevailing multiples etc. In the terms of exit, decision to sell and exit price is an independent decision which has no relation to other forms of NDB financing. For all equity transactions, a suitable exit strategy is developed and clearly articulated to the Management/CIC/BOD during the approval process.

PART 2: PROCESSES AND RESPONSIBILITIES

H. Business and credit process

25. The business and credit process is characterized by three main areas: (a) approval; (b) monitoring and portfolio management; and (c) workout and recovery. Each of these is explained in the following sections. Further, while the above stages would be applicable for most non-sovereign transactions, certain special requirements of (a) transactions with financial intermediaries; and (b) transactions with public sector entities with country specific requirements, will be included in the operating guidelines. The NDB Environment and Social Framework would be applicable for all transactions.

a. *Approval process*

26. The main stages of the approval process include (i) concept review; (ii) due diligence and rating; (iii) CIC review; (iv) Board approval; and (v) closing. Each of the stages is elaborated as follows:

i. Concept review

27. The purpose of the concept review is (i) to ensure (based on available information) that the proposed transaction is in compliance with the principles, priorities, strategies and policies of the Bank and its mandate, country partnership plan,

[8] This section does not cover the process of conversion of loan to equity as a result of client events of default nor details of processing of equity operations (valuation, exit strategies, reporting, accounting etc.); these will be covered in separate guidelines.

procurement, environment and social framework, risk management requirements, and any other applicable policies of the Bank; and (ii) to confirm the proposed transaction's broad business structure and agree on a mandate for negotiation with the client. Concept review is undertaken before significant resources and costs are assigned or expended. The project team upfront seeks advice on significant concerns related to integrity or money laundering and the financing of terrorism with the associated functions at NDB. The operations division prepares the concept paper.

28. The project concept paper provides a snapshot of the different elements of the project including (i) project's alignment with national strategies, country partnership plan, and NDB's strategic objectives for non-sovereign operations; (ii) relationship with the client; (iii) preliminary structure of the transaction including implementation arrangements; (iv) key stakeholders and brief note on their experience; (v) developmental impact of the project; (vi) preliminary financial and economic indicators, and risk assessment with inputs from the risk division; (vii) indicative expenditure and financing plan; (viii) key areas to be covered by project due-diligence; (ix) resource requirement for processing (staff and consultants); (x) processing schedule; (xi) initial environmental and social risk categorization (if possible); and (xii) key issues, if any, that require Management guidance.

29. Project concept papers are peer reviewed internally for any issues relating to the sector, risk management, preliminary assessment of viability, co-financing, environment and social framework, evaluation, procurement, legal issues, disbursement issues, alignment with country strategy. The project team revises the concept paper indicating among others project's key issues, if any, requiring Management guidance, and the preliminary risk category of the project (both project risk and environment and social risks. The revised paper is cleared by the relevant Chief and the Director General and submitted for approval to the Operations Review Meeting (ORM) chaired by Vice President and Chief Operations Officer (VP&COO), comprising Directors General/Heads/staff of the following functions/divisions: risk, treasury, legal, procurement and environment and social compliance, and economics. The ORM assesses the resources required to carry out due diligence and takes a view on external expertise required after considering the composition of project processing team and internal resources available.

30. Transactions financed by NDB are classified, at the concept paper stage, by their sector and thematic category, and, as needed, by any other characteristics. The purpose of classification is to monitor the alignment of NDB financing with its strategic priorities and developmental goals. Project's initial classification is modified appropriately during project appraisal based on additional information.

31. Once approved, the concept review provides the consent to proceed with (i) a mandate letter to indicate to the prospective borrower/investee/counterparty the key commercial terms, preliminary security package and key project related conditions; (ii) contracting for transactions costs (including for external consultants, if necessary); and (iii) determining the date from which project expenditures may be financed retroactively.

ii. Due diligence and rating

32. The operations division undertakes comprehensive due diligence to evaluate the key aspects of the transaction, including the developmental, operational, market, financial, economic, legal, corporate governance, compliance (procurement, integrity, money laundering or financing of terrorism, environment and social) aspects. In doing so, the operations function reviews and assesses (i) the developmental impacts; (ii) country, regulatory and policy environment; (iii) sector framework; (iv) basis of award of the project; (v) sponsor experience and financial standing (including external ratings, where available); (vi) business plan submitted by the sponsor/company along with the key assumptions; (vii) reports of the technical, legal, market/commercial due diligence conducted by the sponsor/company (both in-house and through external consultants); (viii) physical status of the project and expenditure already incurred; (ix) project documents; (x) overall plan for construction and operations of the project; (xi) project's environment and social impact and its categorization; and (xi) security structure. If the project is being set up by an existing company, assessment is done both of the new project as well as of integrated operations (existing project and new project).

33. Based on the above detailed analysis, the project team prepares a draft Transaction Appraisal Memorandum (TAM) with inputs from other functions/divisions including risk, legal (including for the security structure), treasury, controllers, country operations, co-financing and partnerships, environment and social and procurement. The project team also seeks inputs with respect to concerns on anti-corruption where necessary. All issues identified at this stage are addressed in the draft TAM. Where necessary assistance may be sought from external consultants/advisors within the overall budget for transaction costs approved as per the concept review.

34. Risk division reviews the draft TAM and assigns appropriate credit rating based on the rating system (in case of loans and guarantees). Pricing for a loan is determined taking into account the risk rating assigned and the financial market conditions using a pricing framework. Particularly, for projects involving a syndication loan component, the input and participation of loan syndications function on pricing, fees, and structuring is sought.

35. The project team leader is responsible for appraising the transaction, preparing the TAM in accordance with applicable NDB policies and for its quality and completeness. The Chief of the division and the relevant Director General is responsible for quality control, final review and submission to the ORM.

36. The transaction is then considered by the ORM to decide next steps taking into account any unresolved issues during inter-divisional consultation process particularly with respect to risk assessment, environment and social framework, procurement, and legal issues. In case the ORM makes suggestions on the due diligence, transaction structure etc. the same are incorporated in the TAM.

37. Following the review, the project team finalizes the TAM. The project team also prepares an issues memorandum to capture the risk rating, summarize the key issues of the transaction, and indicate any unresolved difference of views among the various functions.

iii. CIC review

38. The CIC examines the TAM and the issues memorandum, and decides on the next steps. The CIC may also provide comments on amending the transaction structure, the due diligence, profitability and cost recovery, possible security package arrangements, or any other key requirements.

39. On completion of the CIC, the project team is responsible for implementing the decisions recorded in the CIC meeting and revising the TAM accordingly. Also, the project team could proceed with agreeing to an initial term sheet with the sponsor/company.

40. VP&COO reviews and provides final sign-off for the TAM to be submitted to the Board.

iv. Board approval

41. The project team ensures circulation of the TAM for Board consideration and approval. If a TAM is not submitted to the Board within 12 months of the CIC review and endorsement, CIC has to re-endorse the transaction for circulating to the Board.

v. Closing

42. After Board approval, the project team negotiates outstanding commercial, operational, and legal issues. Legal documentation for the proposed financing transaction is prepared. The project team (i) ensures that all relevant issues have been cleared with treasury; and (ii) prepares a closing certificate after Board approval but always before signing of the related legal documentation. The closing certificate specifies the negotiated terms and conditions, security package, and

pricing that the project team and the client have agreed upon, where they are different from those presented to the CIC/Board, and confirms that what has been negotiated is not materially or adversely different from the basic transaction description, terms and conditions, security package, and minimum pricing approved by the CIC and/or the Board. If applicable, the closing certificate highlights changes for the record, and notes any departure from standard documentation. The Director General of relevant operations division endorses the closing certificate and the risk division either signs off on it, or provides additional comments on the changes as required, or recommends, if so required, that the changes should go through further approval by VP&COO.

b. Monitoring and portfolio management

43. Monitoring of loans, guarantees, and equity investments starts once legal documents have been signed. The primary objective of monitoring is to maintain the quality of assets through early identification and timely management of problems and mitigation approaches.

i. Responsibilities of operations

44. The operations division has the primary responsibility for monitoring and management of the transactions under this Policy until final loan repayment or asset sale/disposal. The operations division manages the relationship with the borrower or investee-company, regularly reviews and reports on the progress and credit quality of the transaction, monitors and tracks the status and adequacy of collateral and security, and undertakes all actions necessary to protect NDB's interests.

45. The operations division appoints a project team leader to be responsible for the administration of each transaction. The project team leader maintains a complete and current credit file containing all documentation relating to the transaction, including the storage of the complete credit file and prepares and submits monitoring report to risk division.

46. All requests for consents, waivers, or amendments to any legal document, all restructuring proposals, all changes to the security package or any other credit-related changes to the transaction structure must be approved by risk division except where the consents, waivers, amendments, or changes relate to environment and social framework or otherwise pertain to noncredit matters, the review and approval of which should follow the process laid out in the operating procedures. Risk division determines whether the consents, waivers, amendments, or changes fall within such exceptions and advises the operations division accordingly.

47. For restructuring of approved debt and guarantee transactions that will result in an increase in the average life of NDB's facility by more than 1 year and/or will result in a change in key terms and conditions that will result in a material change in NDB's risk profile, the operations division will submit such restructuring proposals to the CIC for approval, along with the views of risk division. For equity investments that exceed the holding period indicated and approved in the TAM, the operations division, based on the views of the risk division, will obtain CIC approval for the revised holding period and exit strategy.

48. For equity investments, upon full exit from the investment, the operations division will prepare an exit note that provides a final summary of performance with respect to investment objectives, including actual returns versus expectations, actual holding period versus that originally approved, satisfaction of developmental mandate, challenges and lessons learned.

49. If at any time during project administration the operations division discovers that the covenants and conditions relating to integrity, money laundering, and financing of terrorism have not been complied with, the operating team should (i) report this, or any new information that raises integrity concerns, to risk division and anti-corruption unit for guidance as regards possible corrective actions to be taken; and (ii) ensure appropriate reporting to Management or the Board, where warranted.

ii. Responsibilities of risk management

50. Risk division is responsible for conducting independent reviews of the quality of all non-sovereign transactions and monitoring their risk profile during implementation.[9]

iii. Role of key support functions

51. This policy complies with the relevant provisions of NDB's environment and social framework, and NDB's policies on accounting and measurement, anti-money laundering, anti-corruption and anti-bribery, anti-fraud, procurement (including consulting services), the financing of terrorism or any other applicable policies of NDB. The roles of the other key functions including procurement, internal legal, operations, compliance, audit and evaluation are defined by the respective policies/guidelines.

c. Administration and other fees for processing

52. NDB may charge or pay administrative and other fees that are specific to the processing and implementation of a loan/guarantee/equity transaction, consistent with industry practice. Fees for applications and processing, arranging syndications

[9] The specific role of risk management division has been delineated in the Credit Risk Management Policy.

and guarantees, brokerage, commissions or other fees (for example for cost of expert consultants or reimbursement of discretionary expenses), as appropriate, may be charged or paid by NDB on a case-by-case basis in accordance with good industry practices. A schedule of applicable standard fees to be charged or paid by NDB, may be issued from time to time to prospective financing partners for information and transparency.

d. Workout and recovery

53. In keeping with sound banking principles, nonperforming and impaired assets will be managed independently as highlighted in the Provisioning and Write-off Policy.

I. Prepayment and cancellation of financing

54. Prepayment and cancellation charges will be as per the provisions of the loan agreement.

J. Change in scope

55. In the event of a change of scope, structure, or implementation arrangements of a non-sovereign transaction, as against those described in the closing certificate, the Director General of the relevant operations division supervising the transaction will determine whether the change is major or minor based on consultation with legal counsel, and risk division. If it is minor, the Director General may approve it.

56. When the relevant Director General considers the proposed change to be major, a draft memorandum setting out the change is circulated to risk division, legal counsel, the environment and social function, the controller's division and other functions and offices concerned for interdepartmental comments.

57. The CIC approves a major change that fundamentally alters the structure, outcome, or risk profile of the proposed financing transaction.

K. Specific loss provisioning and write downs

58. Specific loss provisions are made in accordance with the Provisions and Write-off Policy. Valuation of equity investments is made in accordance with NDB's Accounting Policy and Measurement.

L. Representation on the Board of investee companies

59. NDB may require a company in which it has a direct equity investment to provide NDB with the right to nominate a member to its board of directors. Such a nominated member may be an independent expert or an NDB staff member with expertise in the relevant industry and business conditions. Any staff member appointed to the board of directors shall consider any conflicts of interests between his or her duties to NDB and his or her duties as a director under applicable laws and

regulations and comply with any instructions issued by Management. The selection of the nominee director is approved by the Director General of the relevant operations division or, if the proposed nominee director is the Director General, by the responsible Vice President.

M. Guidelines

60. NDB Management issues, from time to time, detailed operating procedures and staff guidelines to help staff prepare NDB financing under this Policy.

N. Review of policy

61. After one year of operation of this policy, NDB may review and modify the Policy based on the experience gained in implementing the Policy.