New Development Bank

TOWARDS A GREENER TOMORROW

ANNUAL REPORT 2016





This is NDB's first annual report.

CONTENTS

MESSAGE FROM THE PRESIDENT

Since its founding in July 2015, New Development Bank (NDB or the Bank) has progressed with the joint efforts of all stakeholders. I wish to thank our shareholders and representatives of our member governments for their generous support. Our host country, China, and host city, Shanghai, have received us with great warmth and hospitality. The Government of the People's Republic of China has provided support at every step of our establishment, for which I am deeply grateful.

Special thanks go to our Governors and their Alternates, as well as our Directors and their Alternates. With their active support, guidance and oversight, they played a pivotal role in contributing to NDB's progress.

We have had the privilege of working with various institutions such as multilateral development banks, international organizations, financial institutions, and other partners. To all of these collaborators and partners, I convey my thanks.

I wish to thank all my colleagues at NDB, who have demonstrated enormous commitment, passion and energy to get the Bank off the ground.

Since the beginning, we have been focusing on building a solid foundation for NDB by setting up all the functional areas of the Bank and formulating decisive policy and administrative measures. During the course of 2016, we successfully commenced the lending and borrowing operations of the Bank.

Seven infrastructure loan projects were approved in all member countries for a total amount of over USD 1.5 Billion, the bulk of which was in the renewable energy sector.

NDB has thus embarked on the journey towards implementation of the founders' vision of financing infrastructure and sustainable development. We have also approved our first loan in Renminbi (RMB) to Shanghai Lingang Rooftop Solar Project, which marks the beginning of local currency lending by NDB.

Our member governments demonstrated their strong support for the Bank, with timeous payment of their paid-in capital contributions, in some instances ahead of schedule. In July 2016, NDB issued its first green bond in the Chinese interbank bond market for RMB 3 billion (equivalent to about USD 448 million).

We have welcomed staff from our member countries at all levels of the Bank, and will continue our efforts to strengthen the talent pool as we grow. Our recruitment policy will continue to target bright and skilled individuals, with a strong emphasis on hiring young professionals as part of our efforts to develop and nurture talent.

In the forthcoming year, we are planning to consolidate and strengthen our foundation. Our activities will be firmly guided by our founders' vision and our commitment to finance green and environmentally friendly projects.

During 2017, NDB is expected to present 10 to 12 projects to its Board with the combined value of approximately USD 2.5 to 3 billion across all of its member countries. We will continue to explore fundraising opportunities in our members' local capital markets and promote local currency lending wherever possible.

Next year promises to bring both significant challenges and opportunities. In the past year, our member countries experienced cyclical headwinds to their economic prospects, resulting in slower growth and volatility in their financial and capital markets.

At the same time, developing countries in general, and our members in particular, will continue to play a major role in global growth. The BRICS economies are home to 41% of the world population (2016) and represent 22% of the global economy (2016).

In addition their share in world exports is about 20% (2015)[1] . NDB is conscious of its responsibility to augment the efforts of our members to raise the productive potential of their economies, through the investment in sustainable infrastructure.

The world is expected to face further dramatic changes as technology continues to disrupt traditional business models. We now live at the cusp of what has been often referred to as the Fourth Industrial Revolution. The first revolution was caused by the use of steam and water power. The second was caused by the use of electric power. The third is the digital revolution, which includes the use of electronics and information technology. The Fourth Revolution, which is already upon us, is brought about by the combination of digital and physical systems including exponential use of automation, artificial intelligence and virtual reality.

Developing countries are already witnessing the first signs of this revolution. Furthermore, they will both influence and be influenced by such disruption. New opportunities will arise with the emergence of new production systems, employment patterns, urbanization models, and environmental demands. We are already experiencing some of the challenges of this new world, which are growing inequality and significant migration patterns.

Such challenges and opportunities will in turn trigger the development of new infrastructure, new thinking, new institutional structures, new products, new services, new partner ecosystems and new collaborations amongst multilateral institutions.

Speed, agility and innovative thinking are the prerequisites needed to succeed and meet aspirations in a world where rapid change is a given.

New Development Bank enters this exciting and challenging new world with a clear-cut goal to contribute to the overall success of its member countries. In this collaboration, we believe it is crucial to combine the energy and innovation of youth with the experience and wisdom of age. I look forward to working with all our stakeholders in the year ahead.

K. V. Kamath
President

[1] The sources of world population, GDP and exports are the BRICS Joint Statistical Publication 2017, the World Bank and the World Trade Organization, respectively.

ANNUAL REPORT 2016

NEW DEVELOPMENT BANK

PURPOSE

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

OUR IDENTITY

Inspired by the concept of Mobius strip, our constantly evolving identity embodies the ethos we live by - transparency, agility and innovation. The wireframe, organic and stable, holds together our two fundamentals - the triangle of sustainable equilibrium and the propeller of change. The wireframe symbolizes infrastructure while green embodies sustainability.

New Development Bank

MEMBERSHIP & VOTING RIGHTS

New Development Bank is the first multilateral development bank founded by the emerging economies of the Federative Republic of Brazil, the Russian Federation, the Republic of India, the People's Republic of China and the Republic of South Africa (collectively the BRICS countries).

The Articles of Agreement (AoA) of the Bank provide that the membership shall be open to members of the United Nations at such times and in accordance with such terms and conditions, as determined by a special majority of the Board of Governors.

The voting power of each member is equal to the number of the shares subscribed by it in the capital stock of the Bank. The initial subscribed capital of the Bank is USD 50 billion. The AoA provides that each of the founding members initially subscribe to USD 10 billion worth of initial subscribed capital. This makes NDB unique in its governance structure as all shareholders have equal voting power.

Flags representing member countries of the NDB - Brazil, Russia, India, China and South Africa, along with the NDB flag

GOVERNANCE

NDB functions under the operational oversight of the Board of Governors and the Board of Directors. The management is comprised of the President and four Vice Presidents.

Board of Governors	• Comprises of one Governor and one Alternate Governor appointed by each member • All powers vest with the Board of Governors • Meets on an annual basis • Approves the General Strategy of the Bank every 5 years • Decides on any change in the capital stock
Board of Directors	• Comprises of one Director and one Alternate appointed by each founding member • Non-resident Board • Meets at least quarterly • Responsible for the conduct of the general operations of the Bank • Several committees assist the Board in discharge of its responsibilities
Audit, Risk, Budget & Compliance Committee	• Comprises of all Board members • Assists the Board of Directors to oversee the financial reporting and disclosure, compliance with the Bank's code of business conduct and ethics, adequacy and reliability of internal control systems and effective implementation of the risk management framework
Finance Committee	• Comprises of President and all four Vice Presidents • Oversees financial matters of the Bank relating to credit operations, treasury and associated risks
Credit & Investment Committee	• Comprises of President and all four Vice Presidents • Responsible for decisions on loans, guarantees, equity investments and technical assistance

Board of Governors

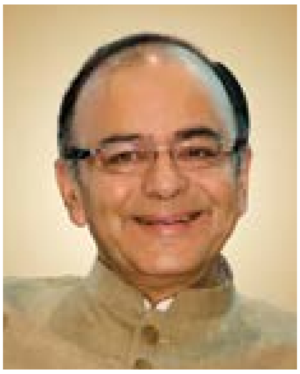
The Board of Governors is the highest decision making authority of the Bank. Each member country appoints one Governor at the ministerial level and one Alternate Governor. Every year the Board of Governors elects one of the Governors to act as a chairperson.

The Board of Governors is required to hold an annual meeting and such other meetings as may be provided for by the Board or called by the Board of Directors. The first annual meeting of the Board of Governors took place in Shanghai in July 2016.

His Excellency (H.E.) Anton Siluanov, the Minister of Finance of Russian Federation, served as first chair of the Board of Governors. H.E. Arun Jaitley, the Minister of Finance of India, was elected as the next Chairman of the Board of Governors at this meeting. The Governors focused on the strategic outlook of the Bank, including its General Strategy and approved several Memoranda of Understanding with other international organizations.

Henrique de Campos Meirelles[1]**,** Minister of Finance of Brazil

Anton Siluanov, Minister of Finance of Russia



Arun Jaitley, Chairman of the Board of Governors, Minister of Finance, India

Lou Jiwei[2]**,** Vice-Chairman of the Board of Governors, Minister of Finance of China

Pravin Jamnadas Gordhan[3]**,** Minister of Finance of South Africa

[1] Mr. Meirelles was appointed Governor in May 2016 replacing Mr. Nelson Henrique Barbosa Filho.
[2] Mr. Jie Xiao was appointed Governor for China in November 2016.
[3] Mr. Gordhan was appointed Governor in February 2016 replacing Mr. Nhlanhla Nene. Since April 2017 the present Governor is Mr. Malusi Gigaba.

Board of Directors

NDB has a non-resident Board of Directors. Each of the founding members appoints one Director and one Alternate Director to the Board for a term of two years. The Directors may be re-elected.

NDB's Board of Directors

Our Board of Directors

Mr. Luis Antonio Balduino Carneiro (Brazil)[1]	**Mr. Sergey Storchak** (Russia)	**Mr. Dinesh Sharma** (India)	**Mr. Shaolin Yang** (China)[2]	**Mr. Tito Titus Mboweni** (South Africa)[3]	**Mr. K. V. Kamath** (India)

The Board of Directors is responsible for general operations of the Bank, including decisions on business strategies, country strategies, loans, guarantees, equity investments, borrowing, basic operational procedures, technical assistance and other operations of the Bank. The Board also approves the budget of the Bank. The Board is required to meet at least quarterly.
Until December 2016, the Board has met seven times.

The Board of Directors approved a budget of USD 42.87 million for the financial year 2017.

Committees

The AoA of the Bank stipulates that the Board of Directors, in exercising its functions, shall appoint a Credit and Investment Committee or any such other committees as it deems advisable for carrying out the general operations of the Bank. Consequently the Board of Directors has approved the constitution of several committees to assist it in discharging its oversight and decision making responsibilities.
These committees are the Credit and Investment Committee (CIC); the Audit, Risk, Budget, and Compliance Committee (ARBC); and the Finance Committee.

[1] Mr. Marcello de Moura Estevão Filho was appointed as the next Director for Brazil on 29 December 2016.

[2] Mr. Shixin Chen was appointed as the next Director for China on 1st July 2016.

[3] Mr. Dondo Mogajane was appointed the Director for South Africa in April 2017.

Management

The Management team is composed of the President and four Vice Presidents. The Vice Presidents shall be appointed from each founding member country other than the country of the President.

The Board of Governors elected Mr. K. V. Kamath from India as the first President of the Bank. The President is also a member of the Board of Directors, but has no vote except a deciding vote in case of an equal division.

The four Vice Presidents were appointed by the Board of Governors on the recommendation of the President.

The management team is highly experienced in areas such as multilateral banking, commercial banking, corporate finance and public policy.

K. V. KAMATH
President

Mr. K.V. Kamath is one of India's most accomplished and acknowledged business leaders. He started his illustrious career in 1971 with ICICI, India's largest private sector bank. In 1988, he joined the Asian Development Bank in Private Sector department. He came back to India in 1996 as MD & CEO at ICICI Bank. In the following years, ICICI Bank expanded its boundaries and became India's first 'universal bank'.
Mr. Kamath spearheaded this transition that became a pivotal point in Indian banking. He retired as MD & CEO to become the non-executive Chairman from 2009 to 2015. Mr. Kamath served as Chairman, Infosys Limited, India's largest software company. He also served on the board of Schlumberger Limited.

PAULO NOGUEIRA BATISTA Jr.
Vice President, Chief Risk Officer

Mr. Paulo Nogueira Batista Jr. is Vice President and CRO of NDB. A well-known Brazilian economist, he was the Executive Director representing Brazil and ten other countries at the International Monetary Fund (IMF) from April 2007 to June 2015. Prior to joining the IMF he served as Secretary for Economic Affairs in the Ministry of Planning, Brazil. He has held various senior leadership offices such as Advisor on External Debt to the Minister for Finance and Head of the Center for Monetary and International Economics Studies, Getúlio Vargas Foundation in Rio de Janeiro.

VLADIMIR KAZBEKOV
Vice President, Chief Administrative Officer

Mr. Vladimir Kazbekov is Vice President and CAO of NDB. Mr. Kazbekov worked in executive position for the Russian National Development Bank (Vnesheconombank) for more than 15 years. He has greatly contributed to the development of BRICS Interbank cooperation mechanism that includes the national development banks of BRICS countries. Prior to his appointment in Vnesheconombank, Mr. Kazbekov served as the Deputy Director of the Foreign Policy Department of the Presidential Executive Office of the Russian Federation. He has nearly 20 years of experience in the Russian Ministry of Foreign Affairs, predominantly in Asian countries.

XIAN ZHU
Vice President,
Chief Operations Officer

Mr. Xian Zhu is Vice President and COO of NDB. Over the past three decades, Mr. Zhu assumed various senior management roles in the public sector. Most recently Mr. Zhu served as Vice President and Chief Ethics Officer at World Bank Group from 2012 to 2015. Since 2002, he served as Strategy and Operations Director for South Asia, Country Director for Bangladesh and Country Director for the Pacific Islands, Papua New Guinea, and Timor Leste. From 1999 to 2001, Mr. Zhu served as Executive Director for China in the World Bank Group. In 2001, Mr. Zhu served in Asian Development Bank. Until the late 1990s, Mr. Zhu worked at China's Ministry of Finance in various capacities.

LESLIE MAASDORP
Vice President, Chief Financial Officer

Mr. Leslie Maasdorp is Vice President and CFO of NDB. Over the past 25 years, Mr. Maasdorp has occupied senior leadership roles in both private and public sectors. Most recently he served as President of Bank of America Merrill Lynch for Southern Africa. Prior to that he served in a dual role as Vice Chairman of Barclays Capital and Absa Capital. In 2002 he was the first African to be appointed as International Advisor to Goldman Sachs International. Before his 13 years as a global investment banker, he served in several senior leadership roles in the Government of South Africa. In 1994 after the transition to democracy, he was appointed as Special Advisor to the Minister of Labour and in 1999 was appointed as Deputy Director General of the Department of Public Enterprises. He is a former Chairman and CEO of Advtech, a leading provider of private education in South Africa.

NDB's Staff

NDB Team

During the initial period of its operations, NDB was led by a small team of experienced professionals seconded from various governments as well as commercial and investment banks. NDB began its formal recruitment process for permanent staff in January 2016.

INSTITUTIONAL CAPACITY BUILDING

Policy Development

The Bank has formulated its functional policies and implemented procedures with due regard to growth in its operations and acceptable risk management standards. The policies and procedures also take into account effective internal control structures and environmental & social framework. The policy framework and procedures will be reviewed annually by the Board of Directors, in line with the changing landscape of the Bank's operations.

The Bank has formulated policies including the Policy on Processing of Loans with Sovereign Guarantee, the Policy on Transactions without Sovereign Guarantee, the Procurement Policy, the Policy on Partnerships with National Development Banks, as well as the Diversity Policy, and the Code of Business Conduct and Ethics, among others.

Human Resources

The Bank is committed to cultivating a diverse work environment built on the pillars of meritocracy, collaboration, result-oriented work, and organizational efficiency.

The NDB will create a corporate culture based on mutual respect, diversity, and shared values. The organizational structure enables the Bank to fulfill its mandate in the most efficient manner while remaining a flexible institution with effective oversight mechanisms that will evolve with time, and scale. The organizational structure is in line with the strategic goal to establish a results-driven development institution with high productivity and strong corporate governance principles.

The organizational structure is based on the following strategic priorities:

- **NDB will be agile to organically evolve as its operations expand**
- **The number of employees will be defined by business needs**
- **Risk mitigation and protection of shareholders' capital through the balance between prompt execution, effective compliance and sound corporate governance**
- **Clear definition of responsibilities and subordinate relationships to enable prompt decision making and task execution**

The Bank continues to prioritize the recruitment of human resources on a diverse basis from its member countries, based on the principles of meritocracy and gender equality. As on 31 December 2016, the Bank had 58 staff members. The planned staff contingent for the coming years is based on the Bank's growth plan with due consideration to being lean and cost effective.

Information Technology

Leveraging current and emerging information technology (IT) is one of the cornerstones of the business strategy at the NDB. The Bank will use IT not only to support business initiatives, but also to collaborate with businesses to adopt emerging technologies with a view of reducing risk and increasing operational productivity and efficiency.

NDB's preferred approach is to buy rather than to build, and to invest in cloud based solutions. This approach allows the Bank to deliver cutting edge solutions with a reduced time to market and diminished application obsolescence.

ENVIRONMENTAL & SOCIAL FRAMEWORK

The Bank is guided by the following principles:

Inclusive and Sustainable Development

The Bank recognizes the importance of maintaining policy and operating standards that promote sustainable development, align with international good practices and effectively respond to environmental and social risks.

Country Systems

NDB promotes the use of strong country systems in the management of environmental and social risks and impacts. Where necessary, the Bank will assist in further strengthening country systems.

Environmental and Social Impacts

NDB adheres to the principles of environmental and social sustainability to ensure minimal adverse impact on the environment and people from its financing and investments in infrastructure and sustainable development projects.

Climate Change

The Bank seeks to promote mitigation and adaptation measures to address climate change. NDB aims to build upon existing green economic growth initiatives and provide support for new ones at regional, national and sub-national levels, as well as private sector. The Bank also encourages climate proofing of its infrastructure financing and investments to build resilience to climate change.

Conservation of Natural Resources

NDB promotes the conservation of natural resources, including energy and water. Furthermore, the Bank supports sustainable land management and urban development.

Gender Equality

The Bank understands that gender equality is important to successful and sustainable economic development. Accordingly, one of the key future objectives of the Bank is to mainstream gender equality issues in all of its operations.

Precautionary Approach

NDB uses a precautionary approach to justify discretionary decisions in situations where there is the possibility of environmental and social harm resulting from project decisions.

Cooperative Functioning and Knowledge Dissemination

NDB seeks to complement the existing efforts of multilateral financial institutions, regional financial institutions and other agencies. In addition, NDB intends to disseminate knowledge gained with its development partners.

REGIONAL OFFICES

The main function of the regional offices will be the identification and preparation of bankable projects in BRICS and other member countries. Back office and supporting functions will be provided from NDB head office to maintain a lean operating structure.

Regional offices will operate under the guidance of the head office and in alignment with NDB's General Strategy. They will work in a collaborative fashion with well-established infrastructure and sustainable development entities, such as national development banks and representative offices of multilateral and regional development banks.

The first regional office is being established in Johannesburg, South Africa. The Africa Regional Center (ARC) will be the 'face' of NDB on the African Continent[1]. The ARC will initially be tasked with identifying and preparing bankable projects to strengthen the Bank's footprint in Southern Africa. During 2016, NDB engaged in substantive negotiations with the Government of the Republic of South Africa to finalize the host country agreement to give effect to this commitment.

The Bank will also establish regional offices in Brazil, Russia and India.

[1] The ARC was launched in August 2017.

ANNUAL REPORT 2016

PROMOTING INFRASTRUCTURE & SUSTAINABLE DEVELOPMENT

OPERATING CONTEXT

In 2015, the international community adopted the Sustainable Development Goals (SDGs). These goals, which require considerable additional funding for emerging markets, provide fresh impetus to the agenda of reducing poverty and steering the world towards a more sustainable future. In addition, in December 2015, a new climate deal was reached in Paris, at the Conference of Parties on Climate Change, known as COP21. These landmark agreements underscore the importance of embracing a new framework to achieve long-term sustainable development.

Furthermore, at the 2016 G20 Summit China's Presidency emphasized the enhanced role of multilateral development banks on the way towards sustainable economic development. The Summit made the first ever reference to the importance of green finance, encouraging the subsequent growth of the green bond market. Green bonds are mainly characterized by the allocation of proceeds exclusively to environmentally friendly projects. Therefore, 2016 was a turning point for the green bond market.

These events influenced and directly shaped the foundations of NDB. For instance, sustainable development is featured in the Bank's constitutional documents, most notably in the AoA. Environmental sustainability is therefore firmly embedded into all aspects of NDB's operations. As a firm advocate of sustainable infrastructure, the Bank is strongly supportive of the SDG-related commitments of its member countries.

Moreover, in 2015, the People's Bank of China (PBoC) adopted new guidelines on green bonds which created a favorable context for NDB to become a pilot multilateral development bank in China to issue green bonds in RMB. The Bank is committed to exploring further debt issuance opportunities in the green bond market of member countries. In this regard, most members opted for clear policy and regulatory environments to facilitate such growth.

For the next five years, the defining priorities of the Bank's development will focus on improving basic infrastructure services, especially those that are economically, socially, and environmentally sustainable, and align our activities towards the commitment of our founders under COP21 and SDGs. This will remain the focus of NDB's operations.

Significant new investment is required to meet the infrastructure needs of our member countries. Such investment in economic and social infrastructure leads to increased productivity, improved access to markets and higher employment. This in turn contributes in meaningful ways to the reduction of poverty.

The members have all committed to undertake necessary structural reforms to ensure renewed, inclusive and sustainable growth.

The Bank's focus on infrastructure and sustainable development will help meet the demand for basic energy, water and transport services in a way that safeguards the environment. It will also galvanize economic growth and employability in member countries, contributing to the overall improvement of living standards.

The world that NDB operates in is clearly set for dramatic change. Technology is disrupting the traditional business models, with rapid obsolescence and dynamic cost structures.

The cost of generating electricity through renewable energy is now on par with generating energy from fossil fuels. The energy landscape is changing fast and adoption of renewable energy technologies even faster. So we need to ask ourselves, how do we align to these disruptions?

How do we redesign traditional business models and operations for this new world, so that we remain relevant? And while doing this, how do we build a green architecture?

The infrastructure requirements of our members, over the next decade, are well documented – with trillions of dollars of investment needed. This infrastructure needs to be green, sustainable, and climate resilient with reduced vulnerability to economic and environmental shocks.

The infrastructure that we build today needs to enhance the economic, social and environmental well-being of our citizens. The requirements are huge and, to meet these, we need all institutions – public and private, multilateral and bilateral, global and national to work together.

OUR LENDING APPROACH

NDB's main operational objectives are:

- To foster the development of member countries
- To support economic growth
- To promote competition and facilitate job creation
- To build a knowledge sharing platform among developing countries

To fulfill its purpose, NDB supports both public and private projects. Initially, this support is offered through loans. Subsequently, NDB proposes to use other instruments such as guarantees, equity participation, as well as other financial instruments.

To be fast, flexible and efficient, without comprising credit quality and risk standards

To use various financial instruments to efficiently meet the demands of our borrowers

To provide local currency financing wherever possible, to insulate our borrowers from currency volatility

To learn and collaborate with other multilateral institutions to enhance developmental impact

FUNDING

The funding strategy aims to ensure that enough resources are available to meet the Bank's liquidity needs, driven by the expanding loan portfolio as well as its operating and other expenses.

The Bank will use a diversified portfolio of funding instruments in local currencies of member countries, as well as other currencies based on the parameters of its loan portfolio and demand from its borrowers and investors.

NDB will raise funds in global capital markets and local capital markets of its members with due regard to hedging mechanisms and adequate policies.

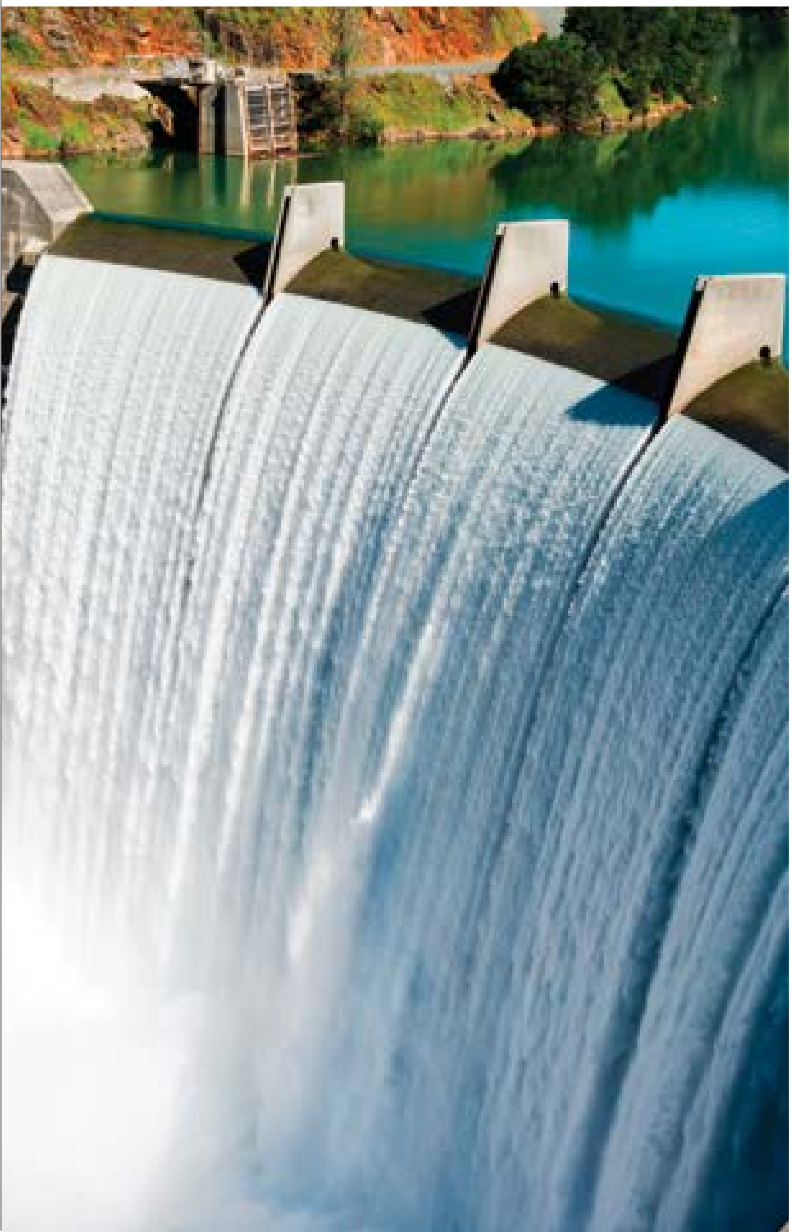
The Bank will closely follow the development of capital markets and will be open to use different and innovative instruments to meet its funding needs, while giving due consideration to managing risks.

NDB will actively explore opportunities of green financing instruments, including green bond issuances.

INVESTMENTS

NDB pursues a conservative investment policy wherein the cash proceeds are placed with highly rated and highly liquid deposits in global banks.

NDB derived its funding from two sources, paid-in capital and green bond proceeds.


WHAT NDB HAS DONE

KEY MILESTONES IN NDB's DEVELOPMENT

2012

The idea of creating a Multilateral Development Bank, led by the BRICS nations, was explored at the 4th BRICS Summit in New Delhi, India.

2013

The decision to establish New Development Bank (NDB) was formally announced at the 5th BRICS Summit in Durban, South Africa.

JULY 2014

The agreement establishing NDB was signed in Fortaleza, Brazil.

JULY 2015

NDB was officially launched on the eve of the BRICS Summit in Ufa, Russia.

JANUARY 2016

The first installment of paid-in capital was received from all founding members of NDB.

FEBRUARY 2016

The Headquarters Agreement was signed with the Government of People's Republic of China.

FEBRUARY 2016

The Bank received AAA China domestic rating from two Chinese rating agencies.

APRIL 2016

NDB Board of Directors approved the first set of loans to projects in Brazil, India, China and South Africa with a combined value of USD 811 million. In addition, the Board authorized the Bank to raise resources up to an aggregate amount of RMB 10 billion.

JULY 2016

NDB Board of Directors approved the first project in Russia which amounted to USD 100 million.

JULY 2016

NDB successfully issued its first green bond in the Chinese interbank bond market.

NOVEMBER 2016

NDB Board of Directors approved two loans for projects in China and India for USD 600 million.

DECEMBER 2016

NDB and Government of People's Republic of China signed the first Loan Agreement for the Shanghai Lingang Distributed Solar Power Project (RMB 525 million), the Bank's first local currency sovereign loan in China.

DECEMBER 2016

The second installment of paid-in capital was received from all founding members of NDB. Total paid-in capital amounted to USD 2.2 billion.

PROJECTS APPROVED IN 2016

In 2016 the Board of Directors of NDB approved seven loans. Six of these are in renewable energy projects that spread across a spectrum of sub-sectors such as solar, wind (both onshore and offshore), small hydro and green energy transmission. One project is to support improvement of roads.

The renewable energy footprint in the Bank's lending portfolio indicates its strong commitment to sustainable development and green energy as one of the means to achieve it.

Signing of the Lingang project in Shanghai in December 2016

NDB's APPROVED PROJECTS

	Loan Amount	Sovereign/ Non-Sovereign	Target Sector
Brazil	USD 300 Million	Non-Sovereign	Renewable Energy (Wind, Solar etc.)
Russia	USD 100 Million	Non-Sovereign	Renewable Energy (Hydro-Power) + Green Energy
India	USD 250 Million	Sovereign Guaranteed	Renewable Energy (Wind, Solar etc.)
India	USD 350 Million	Sovereign	Upgrading Major District Road
China	RMB 525 Million (USD 81 Million)	Sovereign	Renewable Energy (Solar Rooftop PV)
China	RMB 2 Billion (USD 298 Million)	Sovereign	Renewable Energy (Wind Power)
South Africa	USD 180 Million	Sovereign Guaranteed	Renewable Energy (Transmission)

Two-third of the loans, amounting to USD 1,031 million, will support renewable energy generation (solar, wind and hydro) spread over five projects in four countries: Brazil, China, India and Russia. A total amount of USD 180 million will be provided to support power evacuation and transmission in the renewable energy sector of South Africa. Financial assistance of USD 350 million will be used to upgrade district roads in India.

KEY PARAMETERS OF APPROVED LOANS

All the loans were appraised within six months from the date of project identification to the date of approval by our Board of Directors, with due consideration given to credit quality and appropriate risk management standards.

Each project has unique characteristics. In this regard, lending modalities were selected to meet project-specific requirements and borrower preferences as reflected below. Currently, the loan maturities ranged from 12 to 20 years, taking into account debt service capacities and borrower's preferences.

I - Sovereign Project Loan in RMB
II - USD Sovereign-Guaranteed Development Finance Facility (DFF)
III - USD Non-Sovereign DFF
IV - USD sovereign-Guaranteed Project Finance Facility (PFF)
V - Sovereign Project Loan in USD
VI - Sovereign-Guaranteed Loan in USD

Floating lending rates were adopted based on the 3-month SHIBOR for RMB loans and the 6-month LIBOR for USD loans, in line with standard loan pricing practices of multilateral development banks.

For loan pricing, due consideration was also given to the currency, average maturity, and whether the projects are 'sovereign guaranteed' or without a sovereign guarantee.

SELECT LOANS OVERVIEW

Rooftop Solar Project Shanghai Lingang

Sovereign project loan of RMB 525 million for 100,000 kWh rooftop solar photovoltaic power project proposed to be implemented in the Shanghai Lingang Industrial Area (SLIA).

The project, with 1,155 effective generation hours per year, would on average generate 100 MW of electricity every year, which would be sold to the state grid, as well as used for captive consumption.

By generating electricity using a renewable energy source, the project would avoid 73,000 tons of carbon dioxide emissions annually.

The project would benefit end users in the SLIA, Shanghai and the People's Republic of China given the production of electricity in an environmentally sustainable manner leading to emissions reduction.

Offshore Wind Project
Putian Pinghai Bay

Sovereign project loan of RMB 2 billion for an offshore wind power project proposed to be implemented in the Fujian Province, China.

The project, with 3,490 effective generation hours per year, would on average generate 873,000 kWh of electricity every year which would be sold to the provincial grid.

By generating electricity using a renewable energy source, the project would avoid 869,900 tons of carbon dioxide emissions annually.

The project is also expected to enhance confidence in China's large-scale adoption of offshore wind power generation under various technical challenges.

District Roads Project
Madhya Pradesh, India

Project Finance Facility of up to USD 350 million to the Government of India (GOI). The proposed facility would be used by the GOI for on-lending to the Government of Madhya Pradesh (GOMP), which would use it to upgrade major district roads in the state to improve connectivity of the rural interior with the federal and state highway networks.

The project would be implemented primarily by the MP Road Development Corporation Ltd. (MPRDC) along with other government agencies.

The State Government of Madhya Pradesh has embarked on the program to upgrade 19,000 km of district roads in the province.

This project will improve road transport connectivity, promote economic growth in the region and facilitate access to educational, health and economic centers for the rural population.

FIRST GREEN BOND ISSUANCE

In July 2016, NDB successfully issued its first onshore green bond in China for RMB 3 billion with a tenor of 5 years. The decision to issue a green bond demonstrates the Bank's commitment to promote sustainable development projects.

The Bank became the first multilateral financial institution to issue a green bond in the Chinese interbank bond market.

The bond proceeds have been invested by following Green Bond Principles issued by People's Bank of China (PBoC), keeping in mind the operational needs of the Bank, concentration risk and the risk profile of counterparty banks.

The proceeds of the bond will be used for infrastructure and sustainable development projects in NDBs' member countries.
A portion of the proceeds of the bond were converted through cross currency swaps into US Dollars for on-lending to member countries.

Mr. K. V. Kamath and Mr. Leslie Maasdorp addressing the audience

"We are extremely delighted with the response from investors on our inaugural bond issue, given that we had no historical track record. Furthermore, it reinforces our belief that in addition to accessing global capital markets, considerable scope exists for the NDB to raise funding from local capital markets of the BRICS member countries."

K.V.Kamath, NDB President

"The NDB will continue to explore further local currency bond issuances in China as well as other member countries. We intend to actively promote the development of green finance and become a frequent issuer in the Chinese interbank market."

Leslie Maasdorp, NDB Vice President and Chief Financial Officer

PARTNERSHIPS

In line with our mandate, NDB will complement efforts of multilateral and regional financial institutions to support global growth and development. The Bank will continue to engage in partnerships with other international development organizations, as well as national entities whether public or private, in particular with international financial institutions and national development banks. These partnerships will allow NDB to tap into the expertise of established development institutions and strengthen its capacity to assess and implement projects.

To this end, the Bank has signed cooperation agreements with international development organizations including the major global and regional multilateral development banks as well as sub-regional institutions.

Furthermore, NDB has signed cooperation agreements with local commercial and development banks in our member countries to leverage their deep local market access and harness their respective strengths in the areas of resource raising, treasury management and risk management practices.

FACT SHEET

Capital

Authorized Capital – USD 100 Billion
Subscribed Capital – USD 50 Billion
Paid-in Capital – USD 10 Billion

Domestic Rating

Received AAA domestic rating by two Chinese rating agencies, China Chengxin Credit Rating Group and China Lianhe Credit Rating Co., Ltd.

Projects

Seven loans to infrastructure projects (2016)

Partnerships

NDB has signed 9 partnership agreements with most of the leading multilateral banks, as well as with national development banks, in member countries

Debut Bond Issue

First Green Bond issued in 2016, amounting to RMB 3.0 Billion (approximately USD 448 Million)

MAJOR EVENTS


Bank

NDB HEADQUARTERS AGREEMENT SIGNED IN SHANGHAI

The start-up phase of the Bank required the Board of Directors to take a number of important decisions including establishing the headquarters of the Bank in Shanghai. The Board of Directors approved the conclusion of the Headquarters Agreement with the People's Republic of China and a Memorandum of Understanding with the Shanghai Municipal Government.

The Signing of the NDB Headquarters Agreement in February 2016

NDB's FIRST ANNUAL MEETING

The First Annual Meeting of the NDB Board of Governors (BoG) was held on 20 July 2016. The BoG welcomed the progress made by the Bank in its first year of operations and confirmed their firm support to the operations of the Bank.

NDB's First Annual Meeting in July 2016

ON THE GLOBAL STAGE

As a new member of the global development community, the Bank participated in various international and national forums, events and meetings in 2016. These included the BRICS Summit, World Economic Forum, Boao Forum for Asia, St. Petersburg International Economic Forum and Eastern Economic Forum.

Mr. Kamath briefed the five leaders on the progress of NDB at the BRICS Goa Summit in October 2016

Mr. Kamath interacts with H.E. President Xi Jinping on the sidelines of South-South Cooperation Forum at United Nations, in New York in September, 2015

Mr. Kamath met H.E. President Putin on the sidelines of St. Petersburg Economic Forum in June 2016

Signing of the World Bank Cooperation Agreement in September 2016

Formalising NDB's MoU with CAF in September 2016

FINANCIAL HIGHLIGHTS

Key Parameters	Amount	Highlights
Total Assets	USD 10.05 Billion	Represented predominantly by: • Highly secure investments of paid-in capital and green bonds proceeds • Future paid-in capital receivables
Borrowings	USD 448 Million	Reflects NDB's first green bond issuance in the Chinese Interbank Market
Capital	USD 10 Billion	Paid-in capital is contributed to NDB by all shareholders in accordance with provisions of the Articles of Agreement. USD 2.2 Billion paid in, and USD 7.8 Billion due in tranches over the next 5 years.
Operating Profit	USD 4.40 Million	NDB became profitable in the first year of its operation with Interest Income from its investments being a main source of revenue.

Notes

- The Management of the Bank has reviewed the audited financial statements with the ARBC, including a discussion on the quality of the accounting principles as applied, and significant judgments affecting the Bank's financial statements

- The independent auditors have discussed with the ARBC their judgments of the quality of those principles as applied and judgments referred to above under the circumstances

- The members of the ARBC have discussed among themselves, without the Management or the independent auditors being present, the information disclosed to the Committee as described above

- The ARBC in reliance on the review and discussions conducted with the Management and the independent auditors pursuant to the requirements above, believes that the Bank's financial statements are fairly presented in conformity with IFRS in all material respects

- The ARBC has satisfied its responsibilities in compliance with its terms of reference

- The CIC has satisfied its responsibilities in compliance with its terms of reference

ANNUAL REPORT 2016

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF GOVERNORS OF THE NEW DEVELOPMENT BANK

Opinion

We have audited the financial statements of the New Development Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period from 3 July 2015 (the effective date of the Agreement of the New Development Bank) to 31 December 2016, 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 31 December 2016, and of its financial performance and its cash flows for the period from 3 July 2015 (The effective date of the Agreement of the New Development Bank) to 31 December 2016 in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Other Information

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

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

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

The Board of Governors are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

Deloitte Touche Tohmatsu Certified Public Accountants LLP

Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Shanghai, PRC
1 April 2017

ANNUAL REPORT 2016

FINANCIAL STATEMENTS


ment
New
Development
Bank

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD FROM 3 JULY 2015 TO 31 DECEMBER 2016 EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	Notes	From 3 July 2015 to 31 December 2016 USD'000
Interest income	7	28,244
Interest expense	7	(5,979)
Net interest income	7	22,265
Net gains on financial instruments Wat fair value through profit or loss	8	2,486
Other operating income		-
Total other income		2,486
Staff costs	9	(11,259)
Foreign exchange losses		(2,399)
Other operating expenses	10	(6,690)
Operating profit for the period		4,403
Unwinding of interest on the paid-in capital receivables	12	223,304
Profit for the period		227,707
Total comprehensive income for the period		227,707

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	Notes	As at 31 December 2016 USD'000
Assets		
Cash and cash equivalents	11	347,816
Due from banks other than cash and cash equivalents		2,284,894
Paid-in capital receivables	12	7,401,019
Property and equipment	13	476
Intangible assets	14	38
Other assets	15	19,447
Total assets		10,053,690
Liabilities		
Derivative financial liabilities	16	43,969
Financial liabilities designated at fair value through profit or loss	17	403,064
Other liabilities	18	1,235
Total liabilities		448,268
Equity		
Paid-in capital	19	10,000,000
Other reserves	20	(398,981)
Retained earnings		4,403
Total equity		9,605,422
Total equity and liabilities		10,053,690

The financial statements on pages 4 to 34 were approved and authorised for issue by the Management and the Board of Governors on 1 April 2017 and signed on behalf by:

President

Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 3 JULY 2015 TO 31 DECEMBER 2016
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	Paid-in capital USD'000	Other reserves USD'000	Retained earnings USD'000	Total USD'000
Operating profit for the period	-	-	4,403	4,403
Unwinding of interest on paid-in capital receivables for the period	-	-	223,304	223,304
Total comprehensive income for the period	-	-	227,707	227,707
Capital subscriptions	10,000,000	-	-	10,000,000
Impact on discounting of paid-in capital receivables (Note 12)	-	(622,285)	-	(622,285)
Recycling of unwinding of interest arising from paid-in capital receivables (Note 20)	-	223,304	(223,304)	-
As at 31 December 2016	10,000,000	(398,981)	4,403	9,605,422

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 3 JULY 2015 TO 31 DECEMBER 2016
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	From 3 July 2015 to 31 December 2016 USD'000
OPERATING ACTIVITIES	
Profit	227,707
Adjustments for:	
Interest expenses	5,979
Depreciation and amortisation	8
Realized (gains)/losses on financial instruments	(1)
Unrealized (gains)/losses on financial instruments	(3,023)
Bond issuance expenses	681
Unwinding of interest on paid-in capital receivables	(223,304)
Operating cash flows before changes in operating assets and liabilities	8,047
Net increase in due from banks	(2,284,894)
Net increase in other assets and receivables	(23,381)
Net increase in other liabilities	1,235
NET CASH USED IN OPERATING ACTIVITIES	(2,298,993)
INVESTING ACTIVITIES	
Proceeds on disposal of debt instruments held at fair value	1,441
Purchases of debt instruments held at fair value	(1,440)
Purchase of property and equipment, intangible assets	(522)
NET CASH USED IN INVESTING ACTIVITIES	(521)
FINANCING ACTIVITIES	
Paid-in capital received	2,200,000
Proceeds from issue of bonds, net of costs	447,330
NET CASH FROM FINANCING ACTIVITIES	2,647,330
NET INCREASE IN CASH AND CASH EQUIVALENTS	347,816
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	347,816

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM 3 JULY 2015 TO 31 DECEMBER 2016

1. GENERAL INFORMATION

The New Development Bank (the "Bank") was established upon the Agreement on the New Development Bank (the "Agreement") signed on 15 July 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 entered into force on 3 July 2015 according to the notification endorsed by Brazil in its capacity as depositary. The Bank has its headquarters in Shanghai, the People's Republic of China.

The initial authorised capital of the Bank is USD 100 billion and the initial subscribed capital of the Bank is USD 50 billion according to the Agreement. Each founding member shall initially subscribe to 100,000 shares, which total 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 shall be made in dollars and in 7 installments pursuant to the Agreement.

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

As at 31 December 2016, the Bank had 24 employees including the President, 4 Vice-Presidents and 19 staff members. Additionally, there were 34 consultants/secondees working for the Bank on a short-term appointment basis.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the 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 the "IFRSs") issued by the International Accounting Standards Board ("IASB") which are effective for the accounting period.

The Bank has elected to early adopt the following new IFRSs that have been issued by the IASB but not yet effective:

IFRSs	
IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]

1 Effective for annual periods beginning on or after 1 January 2018

IFRS 9 Financial Instruments
The management of the Bank considered that the early adoption of IFRS 9 mainly affected the classification and measurement of the Bank's financial assets and financial liabilities, impairment methodology as at 31 December 2016 compared with those entities applying IAS 39-Financial instruments: Recognition and Measurement ("IAS 39").

Key requirements of IFRS 9 that are relevant to the Bank are:

- All recognised financial assets that are within the scope of IAS are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss ("FVTPL"), IFRS 9 requires that 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 presented 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

IFRS 15-Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract (s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity 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. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The early adoption of IFRS 15 has no material impact on the disclosures of the amounts recognised in the Bank’s financial statements for the current accounting period due to the limited business developed at the beginning stage.

The Bank has not early adopted the following new or revised IFRSs which are relevant to the Bank that have been issued but not yet effective:

IFRSs	
IFRS 16	Leases[2]
Amendments to IAS 7–Statement of Cash Flows	Disclosure Initiative[3]

[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2017

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Bank had non-cancellable operating lease commitments of USD 84,000 as disclosed in note 21. The Bank anticipated that the application of IFRS 16 is unlikely to have a significant impact on the Bank’s Financial Statements.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Bank's financing activities.

As at 31 December 2016, the Bank's financing activities involved a bond issuance as disclosed in note 17. The Bank considered it sufficient to enable users to evaluate the Bank's financing operation.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Basis of preparation

The Bank presents the financial statements for the period from 3 July 2015 (The effective date of the Agreement on the New Development Bank) to 31 December 2016.

The financial statements have been prepared on the historical cost basis except for certain financial instruments and in accordance with the accounting policies set out below which are in conformity with IFRSs. These policies have been consistently applied throughout the period.

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 within the scope of IAS-17: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.

In addition, 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, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are 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 principal accounting policies are set out below.

Interest income and expense

Interest income and expense are recognised in profit or loss for interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (including a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (but does not consider future credit losses). The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Property and equipment

The Bank's property and equipment mainly comprises of vehicles, IT equipment and appliances.

The assets purchased are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are 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 expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is recognised so as to write off the cost of items of property and equipment over their estimated useful lives after taking into account their estimated residual values, using the straight-line method. The Bank starts depreciating an item of property and equipment in the next month of its acquisition.

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

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	16%-50%	4-7years
Others	0%	5 years

Intangible assets

Intangible assets acquired separately and with finite useful lives 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 any changes in estimate being accounted for on a prospective basis.

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

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

IT software	3 - 5 years

Financial instruments

The Bank applied the classification and measurement requirements for financial instruments under IFRS 9. The Bank's financial instruments mainly comprise due from banks, derivative financial liabilities and bond issued designated at fair value through profit or loss as at 31 December 2016.

Classification of financial instruments

The Bank classified its financial assets under IFRS 9, into the following measurement categories:

- those to be measured at FVTPL; and
- those to be measured at amortised cost.

The classification depends on the Bank's business model for managing financial assets and the contractual terms of the financial assets cash flows.

The Bank classified its financial liabilities as liabilities at FVTPL, liabilities at amortised cost or derivative liabilities. Bonds issued in 2016 were designated as liabilities at FVTPL for the purpose of minimising the mismatch of profit or loss arisen from the derivative contracts entered.

Derivative financial instruments

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and price risk, including interest rate swaps and stock index futures. Further details of derivative financial instruments are disclosed in Note 16.

Derivatives are initially recognised at fair value at the date 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 immediately. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank primarily entered into derivative contracts for its bonds issued that were paired with swaps to convert the issuance proceeds into the currency and interest rate structure sought by the Bank. Notwithstanding the purpose for achieving economic hedge, the Bank opted not to apply hedge accounting for any derivative contracts entered into in the financial year ended 31 December 2016.

Impairment of financial assets

IFRS 9 requires recognition of expected credit losses ("ECL") on the financial assets accounted for at amortised cost. Expected credit losses of a financial asset 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 expected credit loss on financial assets accounted for at amortised cost. 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 that are not credit impaired, a lifetime ECL is recognised;

(iii) Stage 3: Lifetime ECL – credit impaired
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 recognized and interest revenue is calculated by applying the effective interest rate to the amortised cost rather than the gross carrying amount.

The Bank assesses, at each report date, whether there is objective evidence that a financial asset or a portfolio of financial assets that are measured at FVTPL, are impaired.

Recognition and derecognition of financial instruments

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.

Financial assets and financial liabilities at FVTPL are recognised initially at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss. All other financial assets and financial liabilities are recognised initially at fair value plus or minus directly attributable transaction costs.

Upon initial recognition, financial instruments may be designated as FVTPL. Restrictions are placed on the use of the designated fair value option and the classification can only be used either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (i.e. eliminates an accounting mismatch') that would otherwise arise from measuring financial assets or liabilities on different bases;
- a group of financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

The Bank applies the fair value measurement option to the bonds issued in 2016. This option is applied where an accounting mismatch is significantly eliminated or reduced that would occur if the liability was measured on another basis.

Where liabilities are designated at FVTPL, they are initially recognized at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and the movement in the fair value attributable to changes in the Bank's own credit quality is presented in other comprehensive income and the remaining change in the fair value of the financial liability is presented in profit or loss.

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers its rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. The Bank derecognises financial liabilities when the Bank's obligations are discharged, cancelled or expired.

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when the Bank has a legal right to offset the amounts and intends to settle on a net basis or to realize the assets and settle the liability simultaneously.

Employee benefits

In the accounting period in which employees provide services, the Bank recognises the salary and benefits incurred and estimates employee benefits as a liability, with a corresponding charge to the profit or loss for the current period. The Bank will revisit the accounting treatment of Staff Retirement Plan ("SRP") and Post Retirement Insurance Plan ("PRP") upon the finalisation of the relevant contracts.

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 share 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 for the amount of receivables.

Taxation

The Bank enjoys tax exemption policy within the territory of mainland China according to Article 9 of the 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, PRC ("China").

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

Cash and cash equivalents

Cash comprises 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 known amounts of cash within three months and are subject to an insignificant risk of changes in value.

Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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). USD is the functional currency of the Bank and the presentation currency of the financial statements.

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (USD) are recorded at the rates of exchange 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

4. KEY ACCOUNTING ESTIMATES AND JUDGEMENTS APPLIED BY MANAGEMENT

In the application of the Bank's accounting policies, which are described in Note 3, the management of 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.

Valuation of derivative contracts and debts designated as fair value through profit or loss

Fair values 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 the reputed financial data vendors like Bloomberg which is used for arriving at the forward rates and discount rates. The financial liabilities are measured at fair value through profit and loss. The valuation models 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 have been provided within the Fair Value of Financial Assets and Liabilities section of the report.

Paid-in capital receivables

The discounted cash flow model is used by the Bank to calculate the present value of paid-in capital receivable at initial recognition. In determining the discount rate of paid-in capital receivable, 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. Thus USD Libor yield curve is considered an appropriate discount rate that reflects the time value and credit risk of the receivables in question.

5. FINANCIAL RISK MANAGEMENT

1. Overview

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

The Bank has established various Board approved risk management policies 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 senior management monitors related risk management parameters and tolerance through policies and procedures under the strategy approved by designated committees.

The main types of financial risks of the Bank are credit risk, liquidity risk and market risk which includes foreign exchange risk and interest rate risk.

2. Credit risk

The Bank is committed to mobilising resources for infrastructure and sustainable development projects in BRICS and other emerging market economies and developing countries. The Bank will provide financial support through loans, guarantees, equity investment and other financial activities to fulfill this purpose. Any 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; (iii) obligors' credit risk in its treasury business.

The Bank mainly relies on external credit rating results from major international rating agencies to have an initial assessment of the credit quality of the treasury obligors. For sovereign and non-sovereign loans the Operations Division collects the latest information on borrowers and conducts a preliminary review as needed for arriving at the creditworthiness of the obligors. In cases where the loans are guaranteed by the Governments of the individual countries, the credit risk is assessed on the guarantor. The risk division of the bank monitors the overall credit risk profile of the Bank on a periodic basis.

A prudential credit risk limit structure facilitates the management of risks associated to the Bank's portfolio. Credit risk limits would apply to single countries, sectors, obligors and products.

The Bank can use an external rating, from global rating agencies, ie, Moody's, Standard and Poor's and Fitch. Apart from this the credit rating from the approved agency can also be used for the obligors who do not have a credit rating from above global rating agencies. In accordance with the Board approved policy, the Finance Committee of the Bank is authorised to approve the usage of such ratings. The Risk Division obtains the latest rating result of the obligors to measure credit risk profile of the Bank.

As at 31 December 2016, the Bank had signed a loan agreement, pending on the full compliance of conditions precedent for the first drawdown. The Bank had deposits with other banks that are subject to credit risk.

The table below represents an analysis of the credit quality of financial assets that are neither past due nor impaired, based on the following grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- from global or approved local rating agency.
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- from global or approved local rating agency.
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ up to but not including defaulted or impaired.

Credit Exposure by Risk	Due from banks As at 31 December 2016 USD'000
Senior investment grade	2,284,894
Investment grade	-
Sub-investment grade	-
Total	2,284,894

These deposits are placed with highly rated banks in mainland China and Hong Kong. The bank reviewed and concluded that the probability of loss from these deposits is remote at the inception of each transition.

There had been no significant increase in credit risk since initial recognition and no significant ECL associated with the amounts due from banks for the year ended 31 December 2016.

Credit risk on derivatives
The bank has entered into derivative transactions for the purpose of achieving economic hedge of currency and interest rate risk associated with the Bond issued by the bank. The bank chose counterparties with high credit rating in mainland China and Hong Kong and entered ISDA agreement with them. Under the ISDA master agreement, if a default of 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 that are favorable to the Bank.

Risk Concentrations
The Bank manages concentration of risk through the limits on the basis of the individual counterparties and geographical region through the Board approved policy. The Board has permitted the Bank to adopt the concentration risk limits one year from operation. The bank would adopt diversifying its concentration risk over a period.

3. 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 controlling liquidity risk. The Bank maintains an appropriate mix of liquid assets as 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 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 financial assets and financial liabilities. 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 therefore include both principal and associated future interest payments.

	Overdue/ On demand USD'000	Less than 1 month USD'000	1-3months USD'000	3-12months USD'000	1-5years USD'000	Over 5years USD'000	Total USD'000
Non-derivatives							
Cash and cash equivalents	253,348	52,522	42,172	-	-	-	348,042
Due from banks	203,505	436,926	-	1,685,434	-	-	2,325,865
Paid-in capital receivables	-	-	-	-	6,050,000	1,750,000	7,800,000
Other financial assets	46	-	-	-	-	-	46
Bonds issued	-	-	-	(12,781)	(419,343)	-	(432,124)
Other financial liabilities	(845)	-	-	-	-	-	(845)
Sub-total	456,054	489,448	42,172	1,672,653	5,630,657	1,750,000	10,040,984
Derivatives							
Net setting derivatives							
Interest rate swap – cash inflow	-	-	-	510	-	-	510
Interest rate swap – cash outflow	-	(573)	-	-	(3,543)	-	(4,116)
Gross setting derivatives							
Cross currency swap – cash inflow	-	-	-	9,877	336,497	-	346,374
Cross currency swap – cash outflow	-	(1,420)	-	(1,947)	(388,104)	-	(391,471)
Sub-total	-	(1,993)	-	8,440	(55,150)	-	(48,703)
Net	456,054	487,455	42,172	1,681,093	5,575,507	1,750,000	9,992,281

4. 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 or losses to the Bank. The Bank's market risk mainly consists of interest rate risk and exchange rate risk arising from the current portfolio. The Treasury and Portfolio Management Division of the Bank undertakes investment and hedging decisions within the guidelines set in Board approved polices.

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 macro-economic 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 balance sheet. 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.

Accordingly, interest rate risk management aims to minimise mismatches of structure and maturities (re-pricing) of interest rate sensitive assets and liabilities in the Bank's portfolios by adopting a match-funding principle complemented by duration gap analysis, interest rate repricing gap analysis 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 re-pricing profile which are used to analyse the impact of interest rate change on its net interest income due to the re-pricing mismatch between assets, liabilities and off-balance sheet positions over a range of re-pricing buckets. Interest bearing assets and liabilities including off-balance sheet positions are slotted into their respective re-pricing time bands according to their earliest interest re-pricing dates. Off-balance sheet items refer to any instruments that are sensitive to changes in interest rates.

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 which involves comparing the projected 12-month net interest income earnings stream produced from both rising and falling interest rate scenarios, to the 12-month income result assuming a base interest rate forecast.

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 will be 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 2016 USD'000	Impact on equity 2016 USD'000
+25 basis points	3,881	-
- 25 basis points	(3,881)	-

Exchange Rate Risk

The exchange rate risk the Bank faces arises from the impact of exchange rate movements on net open positions in loans and treasury portfolio. 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 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 pre-tax impact of a change in foreign exchange rates as at 31 December 2016 assuming that all over variables remain constant:

	Impact on profit 2016 USD'000
10% increase	16
10% decrease	(16)

5. Capital management

The Bank monitors its capital adequacy level within a Capital Management Framework ("CMF"), which seeks to ensure that Bank's capital is sufficient to cover the risks associated with its business. The CMF consists of three pillars that are Limitation on Operations, Equity-to-Loan Ratio and Capital Utilization Ratio.

The Bank sets early warning indicator for the above three pillars (95% for Limitation on Operations, 25% for Equity-to-Loan Ratio and 85% for Capital Utilization Ratio) and monitors the capital adequacy level on an on-going basis. Once the early warning indicator is hit, contingency actions should be triggered to bring the capital adequacy level to safe range.

As at 31 December 2016, the Bank had complied with its capital adequacy management policies.

The Bank has a capital structure in order to meet the capital management objective in a capital efficient manner. The initial subscribed capital shall be equally distributed amongst the founding members and the payment of the amount initially subscribed to the paid-in capital stock of the Bank shall be made in seven installments.

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 5 years review the capital stock of the Bank per Article 7e of the Agreement.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Bank's financial instruments that are measured subsequent to initial recognition at fair value mainly included bonds designated at fair value and the derivatives as at 31 December 2016. Analysis of fair value disclosures uses a hierarchy that reflects the significant inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is classified is determined on the basis of the lowest level input that is significant to the fair value measurement. The fair value hierarchy is as below.

- Level 1: quoted prices in any active market for the financial assets or the liabilities.
- Level 2: inputs other than the quoted prices within Level 1 that are observable in the market and published by reputed agencies like Bloomberg and Reuters. These inputs are used for arriving at the fair value of the assets or the liabilities.
- Level 3: inputs for the financial asset or liability that are not based on the observable market data.

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.

The Bank is of the opinion that there is no active market related to 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 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 reputed agencies like Bloomberg.

The fair value of bonds designated at fair value are measured by two parts that are hedged by the interest rate swaps and the cross currency swaps separately 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 Risk division of the Bank is responsible for the fair value measurement. External experts are engaged as required to review the valuation methodology.

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

	Fair value measurement as at 31 December 2016			
	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial liabilities				
Derivatives	-	43,969	-	43,969
Financial liabilities designated at fair value	-	403,064	-	403,064
Total financial liabilities measured at fair value	-	447,033	-	447,033

There were no transfers between Level 1 and 2 during the period 3 July 2015 to 31 December 2016 for the Bank.

There was no third-party credit enhancements in the fair value measurement for financial liabilities designated at fair value as at 31 December 2016.

7. NET INTEREST INCOME

	For the period from 3 July 2015 to 31 December 2016 USD'000
Interest income	
Due from banks	24,311
Others	3,933
Total interest income	28,244
Interest expense	
Bonds issued	(5,979)
Total interest expense	(5,979)
Net interest income	22,265

8. NET GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the period from 3 July 2015 to 31 December 2016 USD'000
Derivatives	(48,440)
Bonds	50,926
Total	2,486

9. STAFF COSTS

	For the period from 3 July 2015 to 31 December 2016 USD'000
Salaries and allowances	10,860
Other benefits	399
Total	11,259

The Bank provides other benefits, as per their eligibility and applicability, to its staff members during their employment with the Bank. These include medical insurance, life insurance, accidental death & dismemberment insurance, children education assistance allowance, settlement & resettlement allowance, SRP and PRP.

The relevant contracts regarding SRP and PRP had not been signed and the detailed terms and conditions had not been determined as at 31 December 2016.

The Bank did not incur any salary expenses and other employee benefits for members of the Board of Governors and the Board of Directors except the President of the Bank for the period ended 31 December 2016. According to Article 11 of the Agreement, the Board of Governors shall determine the salary and terms of service contract of the President of the Bank.

10. OTHER OPERATING EXPENSES

	For the period from 3 July 2015 to 31 December 2016 USD'000
Professional fees	2,043
Office expenses	2,145
Travel expenses	1,355
Depreciation and amortisation	8
Hospitality expenses	107
Bond issuance costs	681
Others	351
Total	6,690

For the purpose of expediting the construction process of the Bank, the New Development Bank (Shanghai) Preparation and Management, LLC (the "Company") was incorporated in June 2015. The expenses of the Company that were attributed to the preparation and construction of the Bank were recorded as other receivables from the Bank. Upon the liquidation of the Company on 31 May 2016, the Bank accounted for those expenses as its own expenses.

11. CASH AND CASH EQUIVALENTS

	As at 31 December 2016 USD'000
Cash on hand	5
Demand deposit	253,343
Time deposit within three months	94,468
Total	347,816

12. PAID-IN CAPITAL RECEIVABLES

	As at 31 December 2016 USD'000
As at the effective date of the Agreement (note 1)	10,000,000
Less:	
Installment received during the period (note 2)	(2,200,000)
Total nominal amounts of receivables as at 31 December 2016	7,800,000
Less:	
Interest on paid-in capital receivables to be unwound in the future period (note 3)	(398,981)
As at 31 December 2016	7,401,019

Note 1: As disclosed in Note 19, 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 7 installments. The first installment of paid-in capital shall be paid by each member within 6 months of the Agreement coming in force and the second installment shall become due 18 months from the date the Agreement came into force. The remaining 5 installments shall each become due successively one year from the date on which the preceding installment becomes due.

As at 31 December 2016, there were no overdue installments or paid-in capital receivable. The total amount of paid-in capital receivables that will become due over one year, on an undiscounted basis, is USD 7.8 billion.

Note 2: The installment received during the period comprised of a) USD 2 billion, being the first installment due within 6 months of the Agreement coming into force; b) USD 200 million, being part of the second installment received in advance in the year ended 31 December 2016.

Note 3: The discounting method is applied to derive the interest to be unwound over the installment period. The balance includes an initial discount of USD 622,285 thousand less USD 223,304 thousand of unwinding interest on the paid-in capital receivables during the period.

13. PROPERTY AND EQUIPMENT

	IT equipment USD'000	Appliance USD'000	Vehicle USD'000	Furniture USD'000	Others USD'000	Total USD'000
Cost as at 3 July 2015	-	-	-	-	-	-
Additions for the period	65	30	360	2	25	482
Cost at 31 December 2016	65	30	360	2	25	482
Accumulated depreciation as at 3 July 2015	-	-	-	-	-	-
Provided for the period	(3)	(3)	-	-	-	(6)
Accumulated depreciation as at 31 December 2016	(3)	(3)	-	-	-	(6)
Net book value as at 31 December 2016	62	27	360	2	25	476

14. INTANGIBLE ASSETS

	Computer software USD'000
Cost as at 3 July 2015	-
Additions for the period	40
Cost as at 31 December 2016	40
Accumulated amortisation as at 3 July 2015	-
Amortisation for the period	(2)
Accumulated amortisation as at 31 December 2016	(2)
Net book value as at 31 December 2016	38

15. OTHER ASSETS

	As at 31 December 2016 USD'000
Interest receivables	19,203
Other receivables	244
Total	19,447

16. DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2016	Notional Principal USD'000	Fair Value (Assets) USD'000	Fair Value (Liabilities) USD'000
Interest Rate Swap	90,132	-	3,388
Cross Currency Swap	359,396	-	40,581
Total	449,528	-	43,969

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

	As at 31 December 2016 USD'000
Financial liabilities - bonds	403,064
Total	403,064

On 18 July 2016, the Bank issued the first phase of the five-year green bond with the maturity date of 19 July 2021. The interest is payable annually with a fixed coupon rate of 3.07%.

There has been no change in fair value of bonds attributable to changes in the Bank's credit risk for the period. The contractual amount to be paid at maturity of bonds is USD 383,430 thousand for the Bank.

18. OTHER LIABILITIES

	As at 31 December 2016 USD'000
Employee benefits payable	384
Accrued expenses	774
Others	77
Total	1,235

19. PAID-IN CAPITAL

Number of shares		As at 31 December 2016 Amount in USD'000
Authorised share capital	1,000,000	100,000,000
Less:		
Unsubscribed by members	(500,000)	(50,000,000)
Total subscribed capital	500,000	50,000,000
Less: callable capital	(400,000)	(40,000,000)
Total paid-in capital	100,000	10,000,000

The Bank's capital stock is divided into paid-in shares and callable shares. Each share has a par value of USD100 thousand. According to the Agreement entered into force on 3 July 2015, 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 to 100,000 shares, of which 80,000 shares shall be callable shares and 20,000 shares correspond to paid-in capital. Article 6 of the Agreement states that the voting power of each member shall be equal to the number of its subscribed shares in the capital stock of the Bank. In the event of any member failing to pay any part of the amount due in respect of its obligations in relation to paid-in shares under Article 7 of the Agreement, such member shall be unable, for so long as such failure continues, to exercise that percentage of its voting power that corresponds to the percentage which the amount due but unpaid bears to the total amount of paid-in shares subscribed to by that member in the capital stock of the Bank. Article 9 of the Agreement states that payment of the amount subscribed to the callable capital is subject to call only as and when required by the Bank to meet its obligations incurred on borrowing of funds for inclusion in its ordinary capital resources or guarantees chargeable to such resources. Article 42 states that the liability of all members arising from the subscriptions to the capital stock of the Bank and in respect to the depreciation of their currencies shall continue until all direct and contingent obligations shall have been discharged. All creditors holding direct claims shall be paid out of the assets of the Bank and then out of payments to the Bank on unpaid or callable subscriptions.

The Agreement allows for a member to withdraw from the Bank, in which case the Bank shall arrange for the repurchase of the former member's capital stock on such terms as are deemed appropriate in the circumstances. No member has ever withdrawn its membership.

Under the Agreement, payment for the paid-in shares of the initial capital stock subscribed to by founding members shall be made in dollars in 7 installments. The first payment was injected in the Bank's account on 24 December 2015.

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 31 December 2016	Total shares (Numbers)	Total subscribed capital (USD'000)	Callable capital (USD'000)	Paid-in capital (USD'000)
Brazil	100,000	10,000,000	8,000,000	2,000,000
Russia	100,000	10,000,000	8,000,000	2,000,000
India	100,000	10,000,000	8,000,000	2,000,000
China	100,000	10,000,000	8,000,000	2,000,000
South Africa	100,000	10,000,000	8,000,000	2,000,000
	500,000	50,000,000	40,000,000	10,000,000

20. OTHER RESERVES

	As at 31 December 2016 USD'000
Impact on discounting of paid-in capital receivables	(398,981)

Other reserves mainly represented the difference between the present value of paid-in capital receivables and the nominal amounts of subscribed paid-in capital arising from the installment payments of the subscribed paid-in capital, which was regarded as an equity transaction. The subsequent unwinding of interest on paid-in capital receivables for the period was recycled to other reserves from retained earnings immediately following the unwinding treatment in the relevant accounting period.

21. COMMITMENTS

1. Operating lease commitments

As at 31 December 2016, the Bank had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December 2016 USD'000
Within 1 year (inclusive)	84

2. Capital commitments

As at 31 December 2016, the Bank had no irrevocable capital expenditure commitments.

22. RELATED PARTY DISCLOSURES

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

Per the agreement between the Bank and the Government of the People's Republic of China, the Headquarters Seat of the Bank and other relevant facilities as required for the Bank's operations were provided by the Government of the People's Republic of China for free for the period ended 31 December 2016.

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 31 December 2016:

Name	Country	Position
K.V. Kamath	India	President
Paulo Nogueira Batista Jr.	Brazil	Vice President; Chief Risk Officer
Vladimir Kazbekov	Russia	Vice President; Chief Administrative Officer
Xian Zhu	China	Vice President; Chief Operations Officer
Leslie Maasdorp	South Africa	Vice President; Chief Financial Officer

3. During the year, the remuneration of key management were as follows:

	For the period from 3 July 2015 to 31 December 2016 USD'000
Salary and allowance	3,521
Staff Retirement Plan	224
Post-Retirement Insurance Plan	38
Other short-term benefits	46
Total	3,829

23. SEGMENT INFORMATION

For the current accounting period, the Bank had a single reportable segment and had been evaluating the financial performance of the Bank as a whole.

24. SIGNIFICANT MATTER

In December 2016, a loan agreement was signed between the Bank and People's Republic of China ("Borrower") to finance the cost of Shanghai Lingang Distributed Solar Power Project ("Project Implementation Agency"). The Bank agreed to extend to the Borrower a loan of CNY 525 million. This agreement shall be effective from the date on which the conditions precedent for the first drawdown have been complied with by the Borrower.

As at 31 December 2016 and the reporting date, the conditions precedent for the first drawdown are yet to be complied with.

25. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Governors and management and authorised for issuance on 1 April 2017.

* * * End of the Financial Statements * * *

New
Development
Bank

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