THE NEW DEVELOPMENT BANK

Independent Auditor’s Report and
Financial Statements
For the year ended 31 December 2017
(Prepared in accordance with International Financial Reporting Standards)

THE NEW DEVELOPMENT BANK

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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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 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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.

Auditors Responsibility for the Audit of the Financial Statements - CONTINUED

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

28 May 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

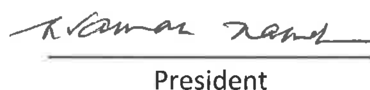
	Notes	Year ended 31 December 2017	From 3 July 2015 to 31 December 2016
Interest income	7	63,863	28,244
Interest expense	7	(14,020)	(5,979)
Net interest income	7	49,843	22,265
Net fee income	8	21	-
Net gains on financial instruments at fair value through profit or loss	9	1,291	2,486
Revenue		51,155	24,751
Other Income		74	-
Staff costs	10	(18,823)	(11,259)
Other operating expenses	11	(7,342)	(6,690)
Impairment provision	5	(23)	-
Foreign exchange gains/(losses)		5,811	(2,399)
Operating profit for the year/period		30,852	4,403
Unwinding of interest on paid-in capital receivables		127,160	223,304
Profit for the year/period		158,012	227,707
Total comprehensive income for the year/period		158,012	227,707

THE NEW DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	Notes	As at 31 December 2017	As at 31 December 2016
Assets			
Cash and cash equivalents	12	1,019,854	347,816
Due from banks other than cash and cash equivalents	13	3,212,404	2,284,894
Loans and advances	14	23,857	-
Paid-in capital receivables	15	5,933,354	7,401,019
Property and equipment	16	594	476
Intangible assets	17	54	38
Other assets	18	34,001	19,447
Total assets		10,224,118	10,053,690
Liabilities			
Derivative financial liabilities	19	3,331	43,969
Financial liabilities designated at fair value through profit or loss	20	449,367	403,064
Other liabilities	21	2,811	1,235
Total liabilities		455,509	448,268
Equity			
Paid-in capital	22	10,000,000	10,000,000
Other reserves	23	(266,646)	(398,981)
Retained earnings		35,255	4,403
Total equity		9,768,609	9,605,422
Total equity and liabilities		10,224,118	10,053,690

The annual financial statements on pages 4 to 44 were approved and authorised for issue by the Board of Governors on 28 May 2018 and signed on their behalf by:



President

Chief Financial Officer

THE NEW DEVELOPMENT BANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	Paid-in capital	Other reserves	Retained earnings	Total
As at 1 January 2017	10,000,000	(398,981)	4,403	9,605,422
Operating profit for the year	-	-	30,852	30,852
Unwinding of interest on paid-in capital receivables for the year	-	-	127,160	127,160
Total comprehensive income for the year	-	-	158,012	158,012
Impact of early payment on paid-in capital receivables (Note 15)	-	5,175	-	5,175
Reclassification of unwinding of interest arising from paid-in capital receivables	-	127,160	(127,160)	-
As at 31 December 2017	10,000,000	(266,646)	35,255	9,768,609

	Paid-in capital	Other reserves	Retained earnings	Total
As at 3 July 2015				
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 15)	-	(622,285)	-	(622,285)
Reclassification of unwinding of interest arising from paid-in capital receivables	-	223,304	(223,304)	-
As at 31 December 2016	10,000,000	(398,981)	4,403	9,605,422

THE NEW DEVELOPMENT BANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
EXPRESSED IN THOUSANDS OF U.S. DOLLARS

	Year ended 31 December 2017	From 3 July 2015 to 31 December 2016
OPERATING ACTIVITIES		
Profit for the year/period	158,012	227,707
Adjustments for:		
Interest expense accrual	420	5,979
Depreciation and amortisation	102	8
Realised (gains) on financial instruments	-	(1)
Unrealised losses/ (gains) on financial instruments	5,245	(3,023)
Unwinding of interest on paid-in capital receivables	(127,160)	(223,304)
Bond issuance expenses	-	681
Impairment provisions for loans and commitments	23	-
Operating cash flows before changes in operating assets and liabilities	36,642	8,047
Net increase in due from banks	(927,510)	(2,284,894)
Net increase in loans and advances	(22,789)	-
Net increase in other assets and receivables	(14,554)	(23,381)
Net increase in other liabilities	485	1,235
NET CASH USED IN OPERATING ACTIVITIES	(927,726)	(2,298,993)
INVESTING ACTIVITIES		
Proceeds on disposal of debt instruments at fair value	-	1,441
Purchases of debt instruments at fair value	-	(1,440)
Purchase of property and equipment, intangible assets	(236)	(522)
NET CASH USED IN INVESTING ACTIVITIES	(236)	(521)
FINANCING ACTIVITIES		
Paid-in capital received	1,600,000	2,200,000
Proceeds from issue of bonds, net of costs	-	447,330
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,600,000	2,647,330
NET INCREASE IN CASH AND CASH EQUIVALENTS	672,038	347,816
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD	347,816	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD	1,019,854	347,816

1. GENERAL INFORMATION

The New Development Bank (the “Bank”) was established on the signing of the Agreement on the New Development Bank (the “Agreement”) on 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 took effect on 3 July 2015 according to the notification endorsed by Brazil in its capacity as depositary. The headquarters of the Bank is located in Shanghai, China. On 17 August 2017, the Bank officially opened the Africa Regional Center (ARC), in Johannesburg, which is the first regional office of the Bank.

According to the Agreement, the initial authorised capital of the Bank is United States Dollar ("USD") 100 billion and the initial subscribed capital of the Bank is USD 50 billion. Each founding member shall initially subscribe for 100,000 shares, totaling USD 10 billion, of which 20,000 shares correspond to paid-in capital and 80,000 shares correspond to callable shares. The contribution of the amount initially subscribed by each founding member, to the paid-in capital stock of the Bank, shall be made in dollars in 7 instalments, pursuant to the Agreement.

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

As at 31 December 2017, the Bank had 89 (2016: 19) employees including the President and 4 (2016: 4) Vice-Presidents. In addition, there were 17 (2016: 39) consultants/secondees appointed by the Bank on a short-term basis.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the annual financial statements, the Bank has consistently applied International Accounting Standards (“IASs”), International Financial Reporting Standards (“IFRSs”), amendments and the related Interpretations (‘IFRICs’) (herein collectively referred to as the “IFRSs”) issued by the International Accounting Standards Board (“IASB”) which are effective for the accounting year/period.

The Bank has applied the following amendment in accordance with International Financial Reporting Standards ("IFRSs") which are relevant to the Bank for the first time in the current year:

Amendments to IAS 7 Statement of cash flows (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 cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

The Bank's assets and liabilities arising from financing activities include paid-in capital receivables (Note 15) and bonds designated at fair value through profit or loss (Note 20). A reconciliation between the opening and closing balances of these items is provided in Note 24. Consistent with the transition provisions of amendments, the Bank has not disclosed comparative information for the prior period.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS – continued

Apart from the additional disclosure in Note 24, the application of these amendments has had no impact on the Bank's financial statements.

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:

IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019

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 re-measurement 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. 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 both be presented as financing and operating cash flows.

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. More extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Bank had non-cancellable operating lease commitments of USD 100,000 as disclosed in Note 25. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, whereby the Bank will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless the lease qualifies for low value or short-term leases upon the application of IFRS 16. The Bank anticipates that the application of IFRS 16 is unlikely to have a significant impact on the Bank’s annual financial statements.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

IFRIC 22 Foreign Currency Transactions and Advance

IFRIC 22 clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Bank anticipates that the application of IFRIC 22 is unlikely to have a significant impact on the Bank's annual financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the Solely Payments of Principal and Interest ("SPPI") condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the condition of solely payments of principal and interest if specified criteria are met. The Bank anticipates that the application of amendments to IFRS 9 is unlikely to have a significant impact on the Bank's annual financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Basis of preparation

In the prior reporting period, the Bank presented 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 comparative information of the financial statements is for a period longer than one year, therefore the financial statements are not entirely comparable.

The annual 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 year.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Basis of preparation - continued

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

Revenue

Net interest income

Interest income is recognised in profit or loss for interest-bearing financial assets using the effective interest rate method, on the accrual basis.

The effective interest rate 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 over the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a 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.

Front-end fee

Front-end fees relating to the origination or acquisition of a financial asset are recognised as deferred income at the date of the first drawdown, and subsequently amortised over the period of the contract when the performance obligation is satisfied.

Commitment fee

Commitment fees relating to the undrawn loan commitment are recognised in terms of the loan contracts over the commitment period.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Property and equipment

The assets purchased are initially measured at acquisition cost. The cost at initial recognition include but is not limited to the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be ready for its intended use.

Items of property and equipment are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure incurred for the property and equipment is included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Bank and the subsequent expenditure can be measured reliably. Costs relating to repairs and maintenance are recognised in profit or loss, in the period in which they have been 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 of their estimated residual values, using the straight-line method. The Bank starts depreciating an item of property and equipment in the month following the acquisition date.

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	20%	4-7 years
Others	0%	5 years

Intangible assets

Intangible assets acquired separately and with finite useful lives are subsequently measured at costs less accumulated amortisation and 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 is 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 as 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 this class of intangible assets are as follows:

IT software	3 - 5 years

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Impairment of tangible and intangible assets other than financial assets

At the end of the reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Financial instruments

Initial recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank's financial instruments mainly consist of deposits due from banks, loans and advances, paid-in capital receivables, derivative financial liabilities and bonds designated at fair value through profit or loss (“FVTPL”).

Financial assets and financial liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities measured at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or issue of 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 transaction costs directly attributable to the acquisition of financial assets or the issue of financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

Financial instruments – continued

Classification of financial instruments

Financial assets

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

- Financial assets at FVTPL;
- Financial assets measured at amortised cost; and
- Financial assets measured at fair value through other comprehensive income ("FVTOCI");

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

Financial assets at FVTPL

Financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Upon initial recognition, financial instruments may be designated as FVTPL. A financial asset may only be designated as FVTPL if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.

Financial assets measured at amortised cost

The Bank classifies an asset at amortised cost when the following conditions have been met:

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

Financial assets measured at FVTOCI

The Bank classifies debt instruments at fair value through other comprehensive income if they are held within a business model whose objective is both to hold the financial asset to collect contractual cash flows and to sell the financial asset, and that have contractual cash flows that are SPPI.

Financial liabilities and equity

A financial liability is contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

Financial instruments – continued

The Bank classifies its financial liabilities under IFRS 9 into the following categories:

- Financial liabilities at FVTPL ; and
- Financial liabilities measure at amortised cost.

A financial liability is classified as held for trading if:

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

A financial liability may be designated at fair value through profit or loss:

- If it eliminates or significantly reduces an accounting mismatch that would otherwise arise; or
- If it forms part of a contract containing one or more embedded derivatives which meet certain conditions; or
- If it forms part of a group of financial liabilities, which is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank's key management personnel

Where liabilities are designated at FVTPL, they are initially recognised at fair value, with transaction costs recognised in profit and loss 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 applies the fair value measurement option to the bond issued in 2016 to reduce the accounting mismatch resulting from the economically related interest rate swap and cross currency swap with the same notional amount in total.

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method. For details on effective interest rate, please see the "net interest income section" above.

Derivative financial instruments

The Bank enters into derivative financial contracts to manage its exposure to interest rate and currency risk, including interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 19.

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently re-measured 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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments – continued

Impairment

IFRS 9 requires recognition of Expected Credit Losses ("ECL") on the financial assets accounted for at amortised cost, FVTOCI and certain unrecognised financial instruments such as loan commitments. ECL of a financial instrument should be measured in a way that reflects:

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

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

i) *Stage 1: 12-month ECL*

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

ii) *Stage 2: Lifetime ECL – not credit impaired*

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

iii) *Stage 3: Lifetime ECL – credit impaired*

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

More details about credit risk analysis are provided in Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments – continued

Derecognition of financial instruments

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 expires. The difference between the carrying amount of the financial instruments derecognised and the consideration paid and payable is recognised in profit or loss. The Bank derecognises a financial asset if the substantially all the risks and rewards have neither been transferred nor retained and if control is not retained.

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 realise the assets and settle the liability simultaneously.

Employee benefits

In the accounting period in which employees provide services, the Bank recognises the salary and welfare costs incurred and estimated employee benefits, as a liability at the undiscounted amount of the benefits expected to be paid, with a corresponding charge to the profit or loss for the current period.

The amounts payable arising on the Bank's defined contribution scheme are recognised in the financial statements in the period in which the related service is provided. The Bank has no legal or constructive obligation to pay further contributions in the event that these plans do not hold sufficient assets to pay any employee the benefits relating to services rendered in any current and prior period.

Paid-in capital

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

Cash and cash equivalents

Cash comprises of cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Bank's short-term, highly liquid investments that are readily convertible to 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, which is US Dollars. In preparing the annual financial statements of the Bank, transactions in currencies other than the Bank's functional currency (US Dollars) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS APPLIED BY MANAGEMENT

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

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

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

Valuation of derivative contracts and bond 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 reputable financial data vendors like Bloomberg and are 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 in Note 6.

Discounting of paid-in capital receivables

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

Measurement of the ECL allowance

The measurement of the ECL allowance for the Bank's financial assets measured at amortised cost and loan commitments requires the use of a model and certain assumptions.

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

- Determining criteria for significant increase in credit risk; and
- Choosing an appropriate model and determining appropriate assumptions for the measurement of ECL.

Refer to Note 5 for additional disclosure on the ECL allowance.

5. FINANCIAL RISK MANAGEMENT

Overview

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

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

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

5. FINANCIAL RISK MANAGEMENT - continued

Overview - continued

The Bank is exposed to a variety of financial risks which includes credit risk, liquidity risk and market risk which includes foreign exchange risk and interest rate risk.

Credit risk

The Bank is committed to mobilising resources for infrastructure and sustainable development projects in BRICS and other emerging market economies and developing countries. The Bank will provide financial support through loans, guarantees, equity investment and other financial activities to fulfill this purpose. Any possibility of the inability or unwillingness of borrowers or obligors to meet their financial obligation with the Bank leads to credit risk.

According to the nature of the Bank's business, the principal sources of credit risks are:
(i) Credit risk in its sovereign operations;
(ii) Credit risk in its non-sovereign operations; and
(iii) Obligors credit risk in its treasury business.

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 may use an external rating, from global rating agencies, i.e. Moody's, Standard and Poor's and Fitch. Apart from this the credit rating from the approved agency may 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.

A summary of rating grades that are being used by the Bank is as below:

- *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.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk – continued

ECL measurement

As disclosed in Note 3, the Bank applies a three-stage approach to measuring ECL based on changes in credit quality since inception. The Bank has not applied the practical expedient in assessing low credit risk associated financial assets for year end 31 December 2017 and for the period ended 31 December 2016.

Significant increases in credit risk

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following qualitative or quantitative criteria have been met.

Quantitative criteria:

- For investment grade loans, rating downgrade to non-investment grade, compared to initial recognition of the loan;
- For non-investment grade loans, rating downgrade by 2 notch compared to the rating at initial recognition.

Qualitative criteria:

- History of arrears within 12 months;
- Delay in interest or principal payment exceeds 30 days;
- Cross default is activated;
- Material regulatory action against borrower;
- Failure to comply with covenants or loan condition renegotiation.

Credit impaired financial assets

ECL is calculated on a 12 month or lifetime basis. For financial assets that are credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost rather than the gross carrying amount. A financial asset is credit-impaired when one or more events that have a material detrimental impact on the estimated future cash flows of that financial asset have occurred.

12 month ECL Measurement

The inputs used in measuring the ECL are:

- Probability of Default ("PD") is an estimate of the likelihood of default over 12 months;
- Loss Given Default ("LGD") for the current financial year the LGD is at 30% for sovereign loans and at 75% for non-sovereign loans;
- Exposure at Default ("EAD") includes: loans disbursed and projected disbursement for the next 12 months under loan commitments;
- 12 month ECL= PD X LGD X EAD.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk – continued

Lifetime ECL Measurement

- Lifetime PD (over the remaining term) is developed from the current S&P default rate data used
- LGD is the same as the 12 month calculation
- EAD for any given year is based on current exposure + net projected disbursement over the remaining contract period, relating to loans were performance conditions pursuant to loan contract have been fulfilled.
- Discount rate is equal to the effective interest rate.
- Lifetime of the loan is the contract period
- Lifetime ECL = NPV (PD * LGD * EAD for each year) across the life time of the loan

Definition of default

For the ECL measurement, in accordance with the Bank's policy, 'default' occurs when an obligor meets one or more of the following conditions:

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

Credit exposure on loan facilities

As at 31 December 2017, the Bank had signed seven loan agreements. Six of the seven agreements were effective and drawdowns were made from two of these agreements.

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

As at 31 December 2017	Maximum facility USD'000	Effective facility USD'000	Utilised USD'000	Unutilised loan commitments USD'000
Senior investment grade	895,402	895,402	12,622	882,780
Investment grade	450,000	450,000	11,235	438,765
Sub-investment grade	300,000	-	-	-
Total	1,645,402	1,345,402	23,857	1,321,545
Less: Provision for loan & commitment			-	23
Carrying amount			23,857	1,321,522

The Probability of Default ("PD") associated with the above loan facilities for the next 12 months is between 0% to 1% at the dates of signing of loans agreements and as at 31 December 2017. There has been no significant increase in credit risk up to 31 December 2017.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk – continued

Reconciliation of provision for loan commitment

	12 month ECL USD'000
As at 1 January 2017	-
Provision for loan commitment	23
As at 31 December 2017	23

Concentration risk

The following table breaks down the credit risk exposures relating to loans and commitments in their carrying amounts by country.

As at 31 December 2017	Effective facility USD'000	Utilised USD'000	Unutilised loan commitments USD'000
China	895,402	12,622	882,780
India	350,000	11,235	338,765
Russia	100,000	-	100,000
Total	1,345,402	23,857	1,321,545
Less: Provision for loan & commitment		-	23
Carrying amount		23,857	1,321,522

Credit exposure on deposits

The Bank had deposits with other banks that are subject to credit risk. These deposits are placed with highly rated banks in mainland China, Hong Kong and Singapore. The credit rating of banks is analysed as below:

Due from banks:	As at 31 December 2017 USD'000	As at 31 December 2016 USD'000
Senior investment grade	3,212,404	2,284,894
Investment grade	-	-
Sub-investment grade	-	-
Total	3,212,404	2,284,894

There has been no significant increase in credit risk since initial recognition associated with the amounts due from banks and loans and advances, up to 31 December 2017.

Credit risk on paid-in capital receivables

The paid in capital receivable relates to capital contributions instalments committed by the founding members. No member has currently defaulted on payment therefore in the opinion of the management the Bank is unlikely to incur any related credit risk associated with the capital receivables.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk- continued

Credit risk on derivatives

The Bank has entered into derivative contracts for the purpose of achieving an economic hedge of currency and interest rate risk associated with the bond issued. 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.

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 requirements. 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.

5. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

As at 31 December 2017	On demand USD'000	Less than 1 month USD'000	1-3 months USD'000	3-12 months USD'000	1-5 years USD'000	Over 5 years USD'000	Total USD'000
Non-derivatives							
Cash and cash equivalents	256,894	369,686	395,798	-	-	-	1,022,378
Due from banks	153,060[1]	143,080	258,750	1,866,746	876,959	-	3,298,595
Loans and advances	-	-	317	412	7,912	22,924	31,565
Paid-in capital receivables	-	-	-	-	6,200,000	-	6,200,000
Other financial assets	196	-	-	-	-	-	196
Financial liabilities designated at FVTPL	-	-	-	(13,994)	(469,982)	-	(483,976)
Other financial liabilities	(885)	-	-	-	-	-	(885)
Sub-total	409,265	512,766	654,865	1,853,164	6,614,889	22,924	10,067,873
Derivatives							
Net settled derivatives							
interest rate swap – cash inflow	-	-	-	1,760	5,126	-	6,886
interest rate swap – cash outflow	-	(981)	-	(2,064)	(8,039)	-	(11,084)
Gross settled derivatives							
cross currency swap – cash inflow	-	-	-	11,263	376,861	-	388,124
cross currency swap – cash outflow	-	(2,288)	-	(2,933)	(382,638)	-	(387,859)
Sub-total	-	(3,269)	-	8,026	(8,690)	-	(3,933)
Net	409,265	509,497	654,865	1,861,190	6,606,199	22,924	10,063,940

5. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

As at 31 December 2016	On demand USD'000	Less than 1 month USD'000	1-3 months USD'000	3-12 months USD'000	1-5 years USD'000	Over 5 years USD'000	Total USD'000
Non-derivatives							
Cash and cash equivalents	253,348	52,522	42,172	-	-	-	348,042
Due from banks	203,505[2]	436,926	-	1,685,434	-	-	2,325,865
Loans and advances	-	-	-	-	-	-	-
Paid-in capital receivables	-	-	-	-	6,050,000	1,750,000	7,800,000
Other financial assets	46	-	-	-	-	-	46
Financial liabilities designated at FVTPL	-	-	-	(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 settled derivatives							
Interest rate swap– cash inflow	-	-	-	510	-	-	510
Interest rate swap – cash outflow	-	(573)	-	-	(3,543)	-	(4,116)
Gross settled 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

5. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

[1] The maturity of this one year time deposit is 31 December 2017 and the Bank intends to renew it, accordingly the amount has been excluded from cash equivalent.

[2] The maturity of this one year time deposit is 31 December 2016 and the Bank intends to renew it, accordingly the amount has been excluded from cash equivalent.

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 makes 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 the 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 is 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.

5. FINANCIAL RISK MANAGEMENT – continued

Interest rate sensitivity analysis

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

	Impact on profit	
	2017	2016
	USD'000	USD'000
+ 25 basis points	4,952	3,881
- 25 basis points	(4,952)	(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 the treasury portfolio. Movements in currencies, in which the Bank transacts, relatively to its functional currency (USD), 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 impact of a change in foreign exchange rates as at 31 December 2017 assuming that all other variables remain constant:

	Impact on profit	Impact on profit
	2017	2016
	USD'000	USD'000
10% Increase	46	16
10% Decrease	(46)	(16)

5. FINANCIAL RISK MANAGEMENT - continued

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 Utilisation Ratio.

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

As at 31 December 2017, 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 as per Article 7e of the Agreement.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Bank's financial instruments that are measured subsequent to initial recognition at fair value mainly included bonds designated at fair value and the derivatives as at 31 December 2017.

The risk division of the Bank is responsible for the fair value measurement. Analysis of fair value disclosures uses a hierarchy that reflects the significant inputs used in measuring the fair value. 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 reputable 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.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES - continued

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

The Bank is of the opinion that there is no active market related to its bond 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 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 table below shows the comparison of fair value of the financial liabilities and derivatives.

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
As at 31 December 2017				
Financial liabilities				
Derivatives	-	3,331	-	3,331
Financial liabilities designated at fair value	-	449,367	-	449,367
Total financial liabilities measured at fair value	-	452,698	-	452,698

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
As at 31 December 2016				
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 in 2017 and during the period from 3 July 2015 to 31 December 2016.

There was no third-party credit enhancements in the fair value measurement for financial liabilities designated at fair value as at 31 December 2017 and 31 December 2016.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES - continued

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

The Bank considered that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Bank's statements of financial position approximate their fair values.

7. NET INTEREST INCOME

	For the year ended 31 December 2017 USD'000	For the period from 3 July 2015 to 31 December 2016 USD'000
Interest income from banks	63,681	24,311
Interest income from loans and advances	182	-
Others	-	3,933
Total interest income	63,863	28,244
Interest expense		
Bonds issued	(14,020)	(5,979)
Total interest expense	(14,020)	(5,979)
Net interest income	49,843	22,265

In addition to the net interest income shown above, there was also interest income from paid-in capital receivables, which was presented separately for reporting purpose. The aggregated net interest income from financial assets at amortised cost amounting to USD 191,023 thousand for the year ended 31 December 2017 and USD 251,548 thousand and for the period ended 31 December 2016 respectively.

8. NET FEE INCOME

	For the year ended 31 December 2017 USD'000	For the period from 3 July 2015 to 31 December 2016 USD'000
Front-end fee recognised	21	-
Total	21	-

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

	For the year ended 31 December 2017 USD'000	For the period from 3 July 2015 to 31 December 2016 USD'000
Derivatives	47,174	(48,440)
Bonds	(45,883)	50,926
Total	1,291	2,486

10. STAFF COSTS

	For the year ended 31 December 2017 USD'000	For the period from 3 July 2015 to 31 December 2016 USD'000
Salaries and allowances	15,770	10,860
Other benefits	3,053	399
Total	18,823	11,259

The Bank provides other benefits, based on their eligibility and applicability, to its staff members during their employment with the Bank. These include medical insurance, life insurance, accidental death and dismemberment insurance, Staff Retirement Plan ("SRP") and Post Retirement Plan ("PRP"). Both SRP and PRP are defined contribution schemes and are operated through trust funds. For SRP, both the Bank and staff contribute. For PRP, only the Bank contributes.

The charge recognised in the 2017 financial year for the SRP and PRP was USD 2,518 thousand and USD 287 thousand respectively and is included in "Other benefits".

The Bank did not incur any salary expenses and other employee benefits for members of the Board of Governors and the Board of Directors except the President of the Bank for the year ended 31 December 2017 and 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 the service contract of the President of the Bank.

11. OTHER OPERATING EXPENSES

	For the year ended 31 December 2017 USD'000	For the period from 3 July 2015 to 31 December 2016 USD'000
Office expenses	2,338	2,145
Professional fees	2,436	2,043
Travel expenses	2,020	1,355
Bond issuance costs	-	681
IT expenses	239	304
Hospitality expenses	101	107
Depreciation and amortisation	102	8
Others	106	47
Total	7,342	6,690

12. CASH AND CASH EQUIVALENTS

	As at 31 December 2017 USD'000	As at 31 December 2016 USD'000
Cash on hand	6	5
Demand deposit	256,888	253,343
Time deposit with maturity within three months	762,960	94,468
Total	1,019,854	347,816

13. DUE FROM BANKS OTHER THAN CASH AND CASH EQUIVALENTS

	As at 31 December 2017 USD'000	As at 31 December2016 USD'000
Commercial banks	3,975,364	2,379,362
Total	3,975,364	2,379,362
Less: time deposit with maturity within three months	(762,960)	(94,468)
Total	3,212,404	2,284,894

14. LOANS AND ADVANCES

	As at 31 December 2017 USD'000	As at 31 December 2016 USD'000
Balance at 1 January 2017	-	-
Disbursements	22,523	-
Foreign exchange movements	266	-
Capitalisation of fees	1,068	-
Balance at 31 December 2017	23,857	-
Less: Impairment	-	-
Net balance at 31 December 2017	23,857	-

15. PAID-IN CAPITAL RECEIVABLES

	As at 31 December 2017 USD'000	As at 31 December 2016 USD'000
Balance at the beginning of year/effective date of the Agreement (Note 1 below)	7,800,000	10,000,000
Less:		
Instalment received during the year/period (Note 2 below)	(1,600,000)	(2,200,000)
Total nominal amounts of receivable at end of the year/period (Note 4 below)	6,200,000	7,800,000
Less:		
Interest on paid-in capital receivables to be unwound in the future period (Note 3 below)	(266,646)	(398,981)
Balance at the end of the year/period	5,933,354	7,401,019

Note 1: As disclosed in Note 22, 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 pay 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.

Note 2: The installment received in 2017 resulted from the receipt of the third installment and the partial receipt of the fourth installment ahead of schedule.

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 350,464 thousand of accumulated unwinding interest already unwound on the paid-in capital receivables and USD 5,175 thousand of early payment impact on discounting during the year ended 31 December 2017 which was credited to other reserves as an equity transaction.

Note 4: On 31 December 2017, there was no overdue installments of paid-in capital receivables. The total paid-in capital receivables that will become due over one year amount to an undiscounted value of USD 6.2 billion (31 December 2016: USD 7.8 billion).

16. 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 31 December 2016	65	30	360	2	25	482
Additions during the year	126	32	53	-	-	211
Cost at 31 December 2017	191	62	413	2	25	693
Accumulated depreciation as at 31 December 2016	(3)	(3)	-	(0)	-	(6)
Depreciation for the year	(15)	(8)	(65)	(0)	(5)	(93)
Accumulated depreciation as at 31 December 2017	(18)	(11)	(65)	(0)	(5)	(99)
Net book value as at 31 December 2017	173	51	348	2	20	594

	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 during 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	-	-	-	-	-	-
Depreciation 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

17. INTANGIBLE ASSETS

	As at 31 December 2017	As at 31 December 2016
	USD'000	USD'000
Cost		
As at the beginning of the year/period	40	-
Additions for the year/period	25	40
Disposals for the year/ period	-	-
Cost as at the end of the year/period	65	40
Accumulated Amortisation		
As at the beginning of the year/period	(2)	-
Amortisation for the year/period	(9)	(2)
As at the end of the year/period	(11)	(2)
Net Book Value		
As at the end of the year/period	54	38

18. OTHER ASSETS

	As at 31 December 2017	As at 31 December 2016
	USD'000	USD'000
Accrued interest from due from banks	33,219	19,203
Accrued interest from loans and advances	140	-
Other receivables	196	46
Others	446	198
Total	34,001	19,447

19. DERIVATIVE FINANCIAL LIABILITIES

The Bank entered into derivative contracts relating to the bond issued that was paired with swaps of which the total notional amounts in RMB is 3 billion, to convert the bond issuance proceeds into the currency and interest rate structure sought by the Bank. Notwithstanding the purpose for achieving an economic hedge, the Bank opted not to apply hedge accounting for any derivative contracts entered into in the financial year/period ended 31 December 2017 and 31 December 2016.

19. DERIVATIVE FINANCIAL LIABILITIES - continued

As at 31 December 2017	Notional USD USD'000	Fair Value Asset USD'000	Fair Value Liability USD'000
Interest Rate Swap	90,132	-	4,047
Cross Currency Swap	359,396	-	(716)
Total	449,528	-	3,331

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

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

	As at 31 December 2017 USD'000	As at 31 December 2016 USD'000
Bond - Principal	448,011	448,011
- Interest payable	6,399	5,979
- Fair value change	(5,043)	(50,926)
Total	449,367	403,064

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

The contractual principal amount to be paid at maturity of bonds in original currency is RMB 3 billion for the Bank.

There has been no change in fair value of bonds attributable to changes in the Bank's credit risk for the year ended 31 December 2017 and for the period ended 31 December 2016.

21. OTHER LIABILITIES

	As at 31 December 2017 USD'000	As at 31 December 2016 USD'000
Employee benefits payable	328	384
Accrued expenses	885	774
Impairment provision of loan commitment	23	-
Deferred income	1,055	-
Other accruals	520	77
Total	2,811	1,235

22. PAID-IN CAPITAL

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member according to the Agreement, is set out in the following table. There is no amendment to the terms of subscription payment in the Agreement on 31 December 2017. The voting power of each member shall be equal to the number of its subscribed shares in the capital stock of the Bank according to the Agreement.

	As at 31 December 2017		As at 31 December 2016	
	Number of shares	Amount in USD'000	Number of shares	Amount in USD'000
Authorised shared capital	1,000,000	100,000,000	1,000,000	100,000,000
Less: Unsubscribed by members	(500,000)	(50,000,000)	(500,000)	(50,000,000)
Total subscribed capital	500,000	50,000,000	500,000	50,000,000
Less: callable capital	(400,000)	(40,000,000)	(400,000)	(40,000,000)
Total paid in capital	100,000	10,000,000	100,000	10,000,000

22. PAID-IN CAPITAL- continued

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member is set out in the following table:

As at 31 December 2017	Total shares Numbers	Total capital USD'000	Callable capital USD'000	Paid-in capital USD'000	Paid-in capital[1] received USD'000	Paid-in capital outstanding USD'000
Brazil	100,000	10,000,000	8,000,000	2,000,000	700,000	1,300,000
Russia	100,000	10,000,000	8,000,000	2,000,000	1,000,000	1,000,000
India	100,000	10,000,000	8,000,000	2,000,000	700,000	1,300,000
China	100,000	10,000,000	8,000,000	2,000,000	700,000	1,300,000
South Africa	100,000	10,000,000	8,000,000	2,000,000	700,000	1,300,000
Capital subscribed by members	500,000	50,000,000	40,000,000	10,000,000	3,800,000	6,200,000

As at 31 December 2016	Total shares Numbers	Total capital USD'000	Callable capital USD'000	Paid-in capital USD'000	Paid-in capital[1] received USD'000	Paid-in capital outstanding USD'000
Brazil	100,000	10,000,000	8,000,000	2,000,000	400,000	1,600,000
Russia	100,000	10,000,000	8,000,000	2,000,000	600,000	1,400,000
India	100,000	10,000,000	8,000,000	2,000,000	400,000	1,600,000
China	100,000	10,000,000	8,000,000	2,000,000	400,000	1,600,000
South Africa	100,000	10,000,000	8,000,000	2,000,000	400,000	1,600,000
Capital subscribed by members	500,000	50,000,000	40,000,000	10,000,000	2,200,000	7,800,000

[1]Pursuant to Article 9 and attachment 2 of the Agreement each founding members' paid in capital stock shall be received in 7 installments.

On 31 December 2017 all paid-in capital from founding members was received in accordance with the Articles, relating to the third instalment and a partial receipt relating to the fourth instalment has been received ahead of schedule.

23. OTHER RESERVES

	As at 31 December 2017 USD'000	As at 31 December 2016 USD'000
Accumulated impact on discounting of paid in capital receivables	(266,646)	(398,981)
Total	(266,646)	(398,981)

Other reserve mainly represents the difference on the present value of paid-in receivables and the nominal amounts of subscribed paid-in capital arisen from the instalment payments of the subscribed paid-in capital, which is regarded as an equity transaction. The subsequent unwinding of interest on paid-in capital receivables which is reclassified to other reserves from retained earnings immediately following the unwinding treatment in the relevant account period.

24. RECONCILIATION OF ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

Assets and liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Bank's statement of cash flows as cash flows from financing activities.

The table below details changes in the Bank's assets and liabilities arising from financing activities, including both cash and non-cash changes.

	As at 31 December 2016	Cash inflows	Non-cash movements		As at 31 December 2017
			Unwinding of interest	Impact of early payment	
	USD'000	USD'000	USD'000	USD'000	USD'000
Paid-in capital receivables	7,401,019	(1,600,000)	127,160	5,175	5,933,354
Total assets from financing activities	7,401,019	(1,600,000)	127,160	5,175	5,933,354

	As at 31 December 2016	Cash outflows[1]	Non-cash movements		As at 31 December 2017
			Interest accrued movements	Fair value changes	
	USD'000	USD'000	USD'000	USD'000	USD'000
Bond	403,064	(13,600)	14,020	45,883	449,367
Total liabilities from financing activities	403,064	(13,600)	14,020	45,883	449,367

[1]The cash outflow of bonds represented interest payments and is recorded in the Bank's statement of cash flows as cash flow used in operating activities.

25. COMMITMENTS

1) Operating leases commitments

On 31 December 2017, the Bank had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December 2017 USD'000	As at 31 December 2016 USD'000
Within 1 year	100	84

2) Capital commitments

As at 31 December 2017, the Bank had no irrevocable capital expenditures commitment.

3) Credit Commitments

Unutilised loan commitments	As at 31 December 2017 USD'000	As at 31 December 2016 USD'000
Letters of effectiveness signed	1,321,545	-
Letter of effectiveness yet to be signed	300,000	-
Total	1,621,545	-

Credit commitments represent general facility limits granted to borrowers. These credit facilities may be drawn in the form of loans and advances upon the signing of the letter of effectiveness when the conditions precedent for the first drawdown have been complied with by Borrowers.

26. RELATED PARTY DISCLOSURE

In the ordinary course of business, the Bank may grant loans to a government or through a government credit guarantee arrangement, the Bank is, in accordance with IAS 24, exempted from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

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

26. RELATED PARTY DISCLOSURE - continued

The name and relationship with founding member governments are disclosed below. On 31 December 2017 and 2016, no transactions, individually or collectively with government are considered significant to the Bank.

(1) Name and relationship

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

According to the Headquarters Agreement between the Bank and the Government of the People's Republic of China, the Headquarters of the Bank and other relevant facilities to support the Bank's operations have been provided by the Government of the People's Republic of China, for free, for the year ended 31 December 2017 and for the period ended 31 December 2016.

Please refer to Note 15 for the paid-in capital receivables as at 31 December 2017 and 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 2017:

Name	**Country**	**Position**
Vaman Kundapur Kamath	India	President
Sarquis Jose Buainain	Brazil	Vice President; Chief Risk Officer
Paulo Noguiera Batista[1]	Brazil	Vice President; Chief Risk Officer
Vladimir Kazbekov	Russia	Vice President; Chief Administrative Officer
Xian Zhu	China	Vice President; Chief Operations Officer
Leslie Warren Maasdorp	South Africa	Vice President; Chief Financial Officer

[1]The employment contract of Paulo Noguiera Batista Jr., Vice President, Economic Research, Strategy, Partnership and Chief Risk Officer with the Bank was terminated with effect from 12 October 2017. The Board of Governors appointed Sarquis Jose Buainain Sarquis as Vice President, Economic Research, Strategy, Partnership and Chief Risk Officer with effect from 14 December 2017.

26. RELATED PARTY DISCLOSURE- continued

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

	For the year ended 31 December 2017	For the period from 3 July 2015 to 31 December 2016
	USD'000	USD'000
Salary and allowance	2,352	3,521
Staff Retirement Plan	343	224
Post- Retirement Insurance Plan	59	38
Other short term benefits	65	46
Total	2,819	3,829

27. SEGMENT INFORMATION

For the year ended 31 December 2017, the Bank has a single reportable segment and evaluates the financial performance of the Bank as a whole.

28. UNCONSOLIDATED STRUCTURED ENTITY

The Board of Governors approved the establishment of the NDB Project Preparation Fund ("NDB-PPF'') on 20 January 2017 based on Article 3 of the Agreement. The objective of the NDB-PPF is to help NDB achieve its purpose of promoting infrastructure and sustainable development by supporting preparation of bankable projects to facilitate borrowing member countries to raise funds for such projects from NDB and others. The Bank is entrusted with the administration of NDB-PPF to fulfill its purpose. NDB-PPF does not expose the Bank to any loss, nor generates significant variable interest to the extent that requires consolidation. Accordingly, the NDB-PPF is an unconsolidated structured entity for accounting purposes.

Consistent with Article 18 (c) of the Bank's Agreement, the ordinary capital resources and the NDB-PPF resources of the Bank shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separate from each other. NDB-PPF will be open to contributions from all its member countries. Non-member countries and international organisations/funds may also contribute to the NDB-PPF with the Board of Director's approval authorised by the Board of Governors.

As at 31 December 2017, NDB-PPF had received aggregate contributions amounting to USD 4,500 thousand. The Bank has not earned any revenue from NDB-PPF for the year ended 31 December 2017.

29. SUBSEQUENT EVENTS

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

30. APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements were approved by the Board of Governors and authorised for issuance on 28 May 2018.

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