New Development Bank

DEVELOPING SOLUTIONS FOR A SUSTAINABLE FUTURE

ANNUAL REPORT 2017

DEVELOPING SOLUTIONS FOR A SUSTAINABLE FUTURE

ANNUAL REPORT 2017

TABLE OF CONTENTS

4

Message from the Chairman of the Board of Directors 4
Message from the President 6

10

NDB in Numbers 10

12

Overview of NDB 12
Membership and Capital Structure 14
Governance 15
Key Milestones in NDB's Development 27
Key Events in 2017 28
Operating Context of NDB 32
Strategy of NDB 38
Partnerships for Sustainable Growth 39
Risk Management 40
NDB Operations 41
Loan Portfolio of NDB 42

45

Project Highlights of 2017 45
The Year Ahead 52

54

Annual Financial Statements for the Year Ended 31 December 2017 54

98

List of Acronyms and Definitions 98

Message from the Chairman of the Board of Directors

2017 FUNDING COMMITMENT ON NEW PROJECTS

USD 1.85 BILLION

It was a great honour to assume the chairmanship of the Board of Directors of the New Development Bank (NDB) in 2017, to guide the representatives from our member countries to realise our common goal of leading and developing NDB into a 21st century multilateral development bank that can deliver on the ambitious global agenda of sustainable development.

Raising finance to bridge the infrastructure gap and promote economic development is not without its challenges. The current infrastructure investment needs of our members are staggering and it is well known that domestic resources will not be sufficient on their own, while bilateral assistance is often restrained by growth and some traditional multilateral organisations face financial capacity constraints. Yet going from "billions to trillions" in financing is not impossible.

It is often said that innovation is born out of necessity and it is encouraging to witness the international community, including multilateral development banks with the political leverage of the G20, joining efforts to help mobilise resources to deliver on the needs of sustainable infrastructure. This will lay the foundation for improving the livelihoods and living conditions of the world's most vulnerable people and future generations. NDB is well positioned to join forces with others in seeking solutions for sustainable development.

NDB committed USD 1.85 billion to funding new projects in 2017, more than doubling its portfolio. For 2018, the aim is to sustain NDB's rapid growth rate. Actions contributing to this goal are the expansion of NDB with the opening of the Africa Regional Centre (ARC) in South Africa in 2017 and the forthcoming opening of the Americas Regional Office in Brazil which will spark demand for additional finance. The implementation of several memoranda of understanding signed with experienced and reputable domestic and international institutions will

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also help NDB achieve the ambitious goals it has set for itself in the coming years. It is essential that we collaborate on matters of common interest to realise NDB's maximum development potential and impact.

While always prioritising prudent financial management practices, NDB will provide finance at competitive pricing levels with the aim of building a balanced and diversified portfolio in terms of maturity, geographic location, sectors and financial instruments to match the specific requirements and nature of projects.

In NDB's second year of operations, major policies have been finalised to enhance operational performance management, transparency and accountability in line with changing trends and stakeholder demands. Here, I would like to highlight the establishment of the Project Preparation Fund (PPF) in 2017. The PPF will prepare and package projects in their start-up phase, when additional financial support and specialised skills are often most needed. In order to accomplish its mandate, NDB relies on a talented, efficient, responsible and committed team of young and eager professionals under the guidance of seasoned managers. This team, together with my fellow Directors, NDB Governors and our Alternates, has demonstrated continued dedication to fulfilling the expectations for the success of NDB and its strong commitment to sustainable development.

To all, congratulations and best wishes for an even brighter 2018!

Marcello de Moura Estevão Filho
Chairman of the Board of Directors

Message from the President

I am pleased to write to you as the New Development Bank enters another year of its journey, to report on our progress and share our future plans. The development landscape today is characterised by deep and wide-ranging change. The world we inhabit seems poised between opportunity and uncertainty. Indeed, as Charles Dickens said, when humanity was at a similar crossroads earlier, it is "an epoch of belief and an epoch of incredulity".

Sustainability remains the bedrock of our mission and the work we do. To my mind, sustainability is not rigid or immutable. Rather, it is fluid and adaptive. We would do well to look at sustainability through an evolving lens as we transition from the past through a changing present towards a transformational future. Our perception of sustainability is also sculpted and influenced by the prevailing environment. Globally, the Fourth Industrial Revolution and digital disruption are profoundly impacting the approaches to achieve poverty alleviation and improve human welfare. This is particularly evident in the three core areas that are so integral to a happy and balanced life, namely education, health and finance.

The Fourth Industrial Revolution brings with it opportunity. For multilateral development banks, it offers the potential to work in novel and exciting ways so as to bring positive change to the lives of people in our member countries. It is increasingly apparent that the impact of technology from Artificial Intelligence (AI) to blockchain to fifth generation (5G) networks will completely revolutionise approaches to economic development and service delivery.

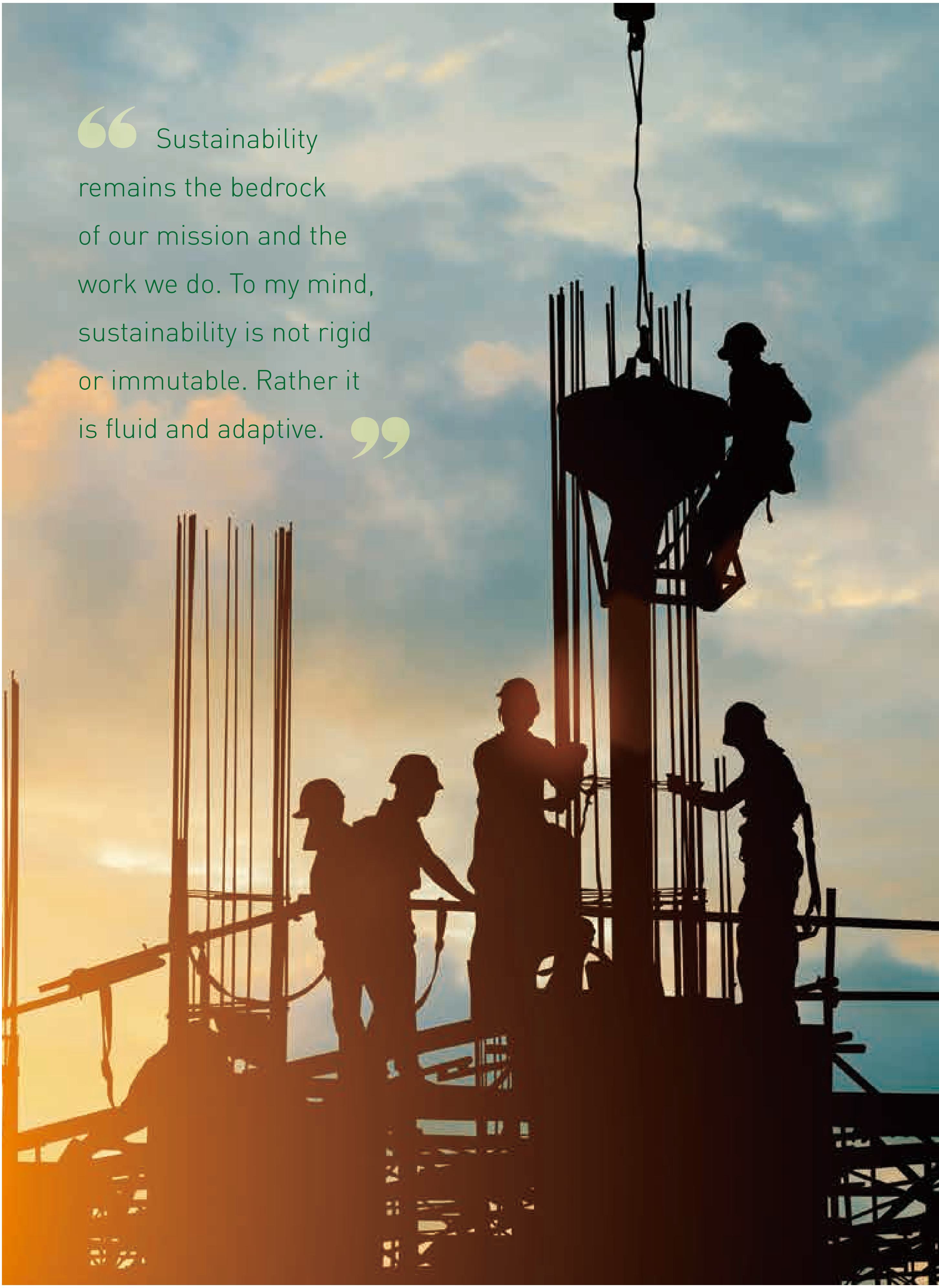
Education can be a life-changing catalyst. 5G networks will revolutionise the future of education. Access to more data and information and connection to global networks will bring the world to the doorstep of a brick and mortar school in the remotest parts of a country. Physical location will no longer constrain a child's

> Change is happening at a much faster pace than anyone is anticipating. The questions we need to ask ourselves are: Are we responsive to this change quickly enough and how well are we leveraging it to adapt and deliver on our mandate?

learning and aspirational horizons. E-education based on the collaborative connectivity of 5G networks will enable countries to teach their youth new skills, thus allowing them to adapt and flourish during the disruptive change that lies ahead.

I also believe that a change similar to what we are seeing in other areas will become increasingly evident in the health sector with the roll out of 5G. Technology, such as virtual reality, AI, mobile apps and wearables, is already making health care both more personalised and more accessible. Blockchain will allow for e-health records to be available across broader swathes of time and space, thus providing patients with the type of data they need and the information they require to be in command of their own healthcare story. With increased bandwidth, hologram house calls will ensure that distance is not a deterrent for the availing of health care. For people in remote corners of the world, this virtual future of health will mean more equitable and reliable access to health care. In the financial services sector today, the purpose of technology is not merely to make finance better, but to make finance serve real life better. There is a paradigm shift from a focus on products to a focus on consumers and what they want and value. Financial technology, or fintech, as it is better known, has today become the solution for empowering the citizens and along with mobile phone-based lending, online banking and insurance are upending traditional banking and financial services.

Examples of fundamental changes in these three sectors of human endeavour abound in our member countries. In India, did anyone in 1995 think that there would be a mobile phone in everyone's pocket by 2000? Or that every Indian household would have a bank account by 2015? The mass roll out of ATMs brought access to a bank to every neighbourhood and now, with mobile apps, the bank resides in every Indian's pocket. The pioneering use of AI and quantum computing in China shows vast potential for human betterment and economic development. The exponential growth in online learning in tertiary education in Brazil brings opportunity and hope to many. Virtual Personal Health Assistants, robots and computer simulators and medical information systems are



> “Sustainability remains the bedrock of our mission and the work we do. To my mind, sustainability is not rigid or immutable. Rather it is fluid and adaptive.”

helping improve the health care system through telemedicine in Russia. South Africa's Strategic Health Innovation Platform helps battle the scourge of disease and the ongoing trial of 5G technology, the first in the African continent, carries with it the potential of driving economic development in mobile, automotive, transport, healthcare, emergency services and other industries.

The need of the hour, therefore, is for us to cultivate an unbounded imagination and a quicksilver adaptability. We must leverage this trend of technological innovation for sustainable development. We must craft a new sustainability paradigm with its promise to alleviate poverty, reduce sickness and enhance access to knowledge.

While we will build upon our foundational focus on sustainable infrastructure financing and development, we intend to use the year ahead as a springboard. We are keen to explore with our members the myriad opportunities in the different areas of sustainable development that the new environment will create.

The adage that change is the only constant in life holds true now more than ever. The path forward for the Bank will look different from what is currently being followed. At the same time, we will seek to ensure that our future direction continues to build upon the best elements of our uniquely forged identity including the greater use of leaner, lighter and cheaper technology and a significantly lower staff footprint.

Change is happening at a much faster pace than anyone anticipated. The questions we need to ask ourselves are: Are we responding to this change quickly enough and how well are we leveraging it to adapt and deliver on our mandate? These questions are not merely an intellectual inquiry.

“Education can be a life-changing catalyst. 5G networks will revolutionise the future of education.”

I believe that the concept of 'dharma', or duty, is central to our work in sustainable development and our mission as a multilateral development bank. We are the custodians of the trust of the peoples in our member countries. We have both the duty and the privilege to deliver on our mandate in a manner that serves them and ennobles their collective future.

K.V. Kamath
President

NDB in Numbers

FINANCIAL PERFORMANCE

	Metric	Year ended 31 December 2017	From 3 July 2015 to 31 December 2016
Operating Profit	USD million	31	4
Net Profit	USD million	158	228

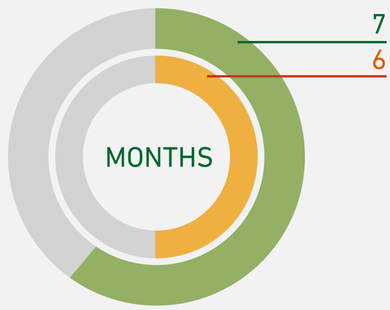
ASSETS QUALITY (AS AT 31 DECEMBER 2016 AND 31 DECEMBER 2017)

AVERAGE RATING
OF TREASURY LIQUID ASSETS

AVERAGE RATING
OF SOVEREIGN OPERATIONS

AVERAGE MATURITY
OF TREASURY LIQUID ASSETS

2017 2016



TOTAL ASSETS

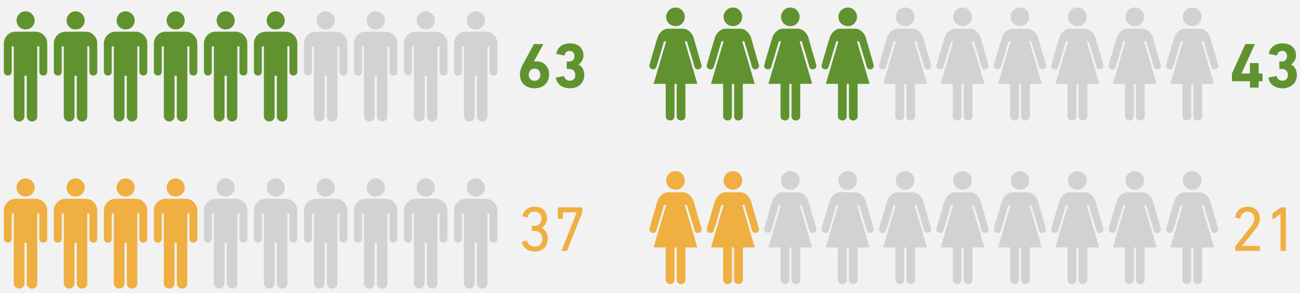
2017 2016

FUNDING AND LIQUIDITY

	Metric	As at 31 December 2017	As at 31 December 2016
Overall Liquidity Ratio	(%)	1,148%	632%
Liquid Assets/Total Assets	(%)	41%	26%

HUMAN RESOURCES

2017 2016



PROJECT PREPARATION FUND

2017

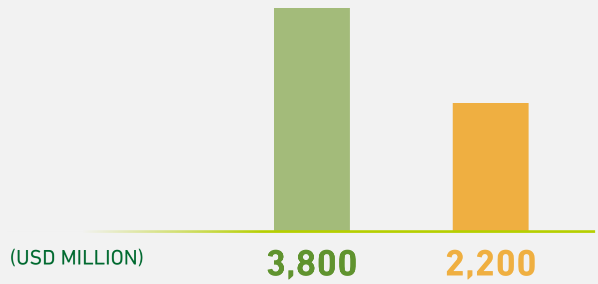
COMMITTED
5.5
USD MILLION

RECEIVED
4.5
USD MILLION

MEMBER CONTRIBUTIONS

PAID-IN CAPITAL

2017 2016



Overview of NDB

The infrastructure that we build today needs to enhance the economic, social and environmental wellbeing of our citizens while seeking solutions for sustainable future development.

Wind power is one of the renewable energy sectors supported by NDB

NDB is a multilateral development bank founded by the BRICS countries in July 2015.

The creation of NDB reflects the desire of the BRICS countries to strengthen their cooperation and complement the efforts of multilateral and regional financial institutions to promote global development and help realise the commitment of the BRICS members to strong, sustainable and balanced economic growth and sustainable development.

NDB's primary focus is to mobilise resources for infrastructure and sustainable development projects in the BRICS countries as well as in other emerging economies and developing countries, to promote global growth and seek solutions for sustainable development.

A Brief History of NDB

2012

29 MAR
At the New Delhi Summit, the BRICS leaders directed their finance ministers to examine the feasibility and viability of setting up a new development bank to support economic growth in the BRICS members and other emerging economies and developing countries

2013

27 MAR
BRICS leaders agreed to establish NDB at the Durban Summit

2014

15 JUL
The Articles of Agreement were signed at the Fortaleza Summit

2015

3 JUL
The Articles of Agreement entered into force

7 JUL
The inaugural meeting of the Board of Governors was held in Moscow

21 JUL
The inauguration ceremony for NDB was held in Shanghai

Membership and Capital Structure

NDB has five member countries, namely the Federative Republic of Brazil, the Russian Federation, the Republic of India, the People's Republic of China and the Republic of South Africa. NDB's initial subscribed capital is USD 50 billion, with each of the five founding member countries subscribing equally to shares worth USD 10 billion. The voting power of each member is equal to the proportion of its subscribed shares in the capital stock of NDB, thus all the founding members have equal voting power.

At present, USD 10 billion of the subscribed capital of USD 50 billion is paid-in capital, and USD 40 billion callable, as required. The paid-in capital is receivable over seven annual instalments by each of the member countries. By December 2017, USD 3.8 billion had been received in accordance with the payment schedule set out in NDB's Articles of Agreement, including USD 300 million received from Russia for its fourth instalment, which was not due until 2019. The timely receipt of capital contributions demonstrates the commitment and support NDB receives from its members.

NDB currently operates within the geographical boundaries of its member countries. Expansion of membership beyond the five founding members would extend NDB's reach and development impact. Recognising this, in April 2017 the Board of Governors approved the terms, conditions and procedures for the admission of new members.

THE SCHEDULE OF PAYMENTS FOR SUBSCRIPTIONS TO THE PAID-IN CAPITAL BY THE FOUNDING MEMBERS IS:

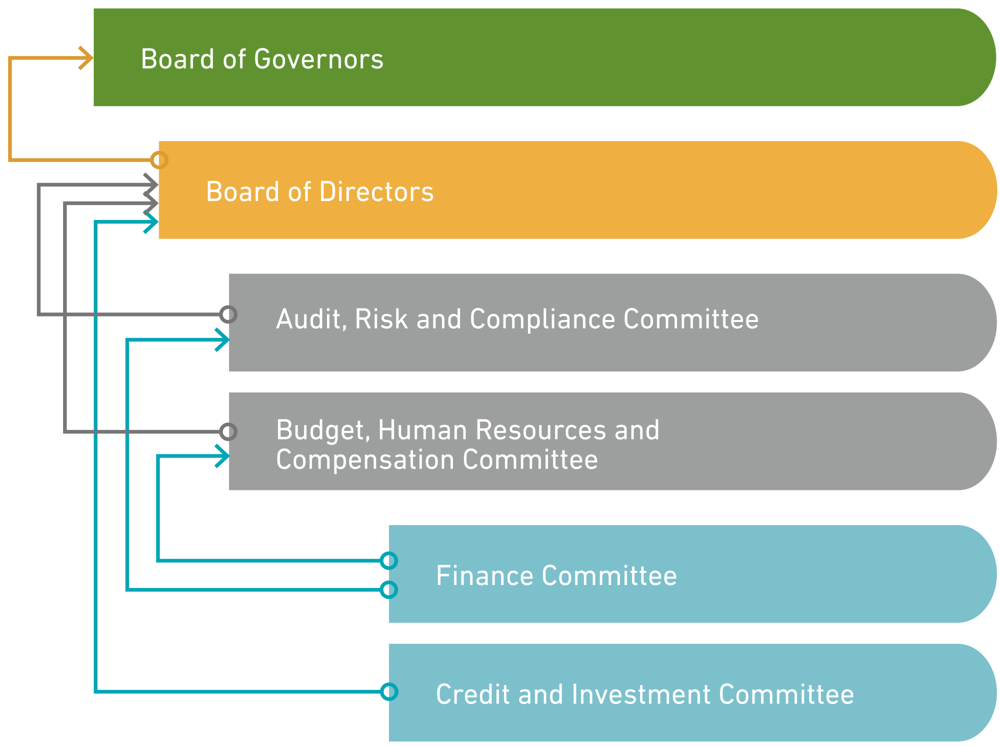
Instalment	Due date	Paid-in capital due from each member (USD million)
1	January 2016	150
2	January 2017	250
3	January 2018	300
4	January 2019	300
5	January 2020	300
6	January 2021	350
7	January 2022	350
		2,000

Instalment	Financial year ending	Total paid-in capital received from members (USD million)
1, 2 and 3[1]	December 2016	2,200
3 and 4[2]	December 2017	1,600
		3,800

[1] USD 200 million relating to the third instalment was received in advance
[2] USD 300 million relating to the fourth instalment was received in advance

Governance

NDB functions under the strategic guidance of the Board of Governors and the operational oversight of the Board of Directors and is managed by the President and four Vice Presidents.



The governance structure supports NDB's commitment to operating in a prudent manner and provides oversight, control and guidance. The Board of Governors, Board of Directors and the senior management team have extensive experience in dealing with and managing multilateral development banks and are dedicated to building an organisation that holds itself to the highest standards of corporate governance and operational effectiveness.

Governance

BOARD OF GOVERNORS

COMPOSITION AND ACCOUNTABILITY

- Comprises one governor and one alternate governor appointed by each member and meets annually
- All the powers of NDB are vested with the Board of Governors

The Board of Governors is the highest decision-making authority of NDB. Each member country appoints a governor at ministerial level and one alternate governor. Every year, the Board of Governors elects one of the governors to act as the Board's Chairman, and one to act as Deputy Chairman. Mr. Jie Xiao, the Minister of Finance of the People's Republic of China, was elected Chairman of the Board of Governors at its annual meeting held in New Delhi on 1 April 2017.

BOARD OF DIRECTORS

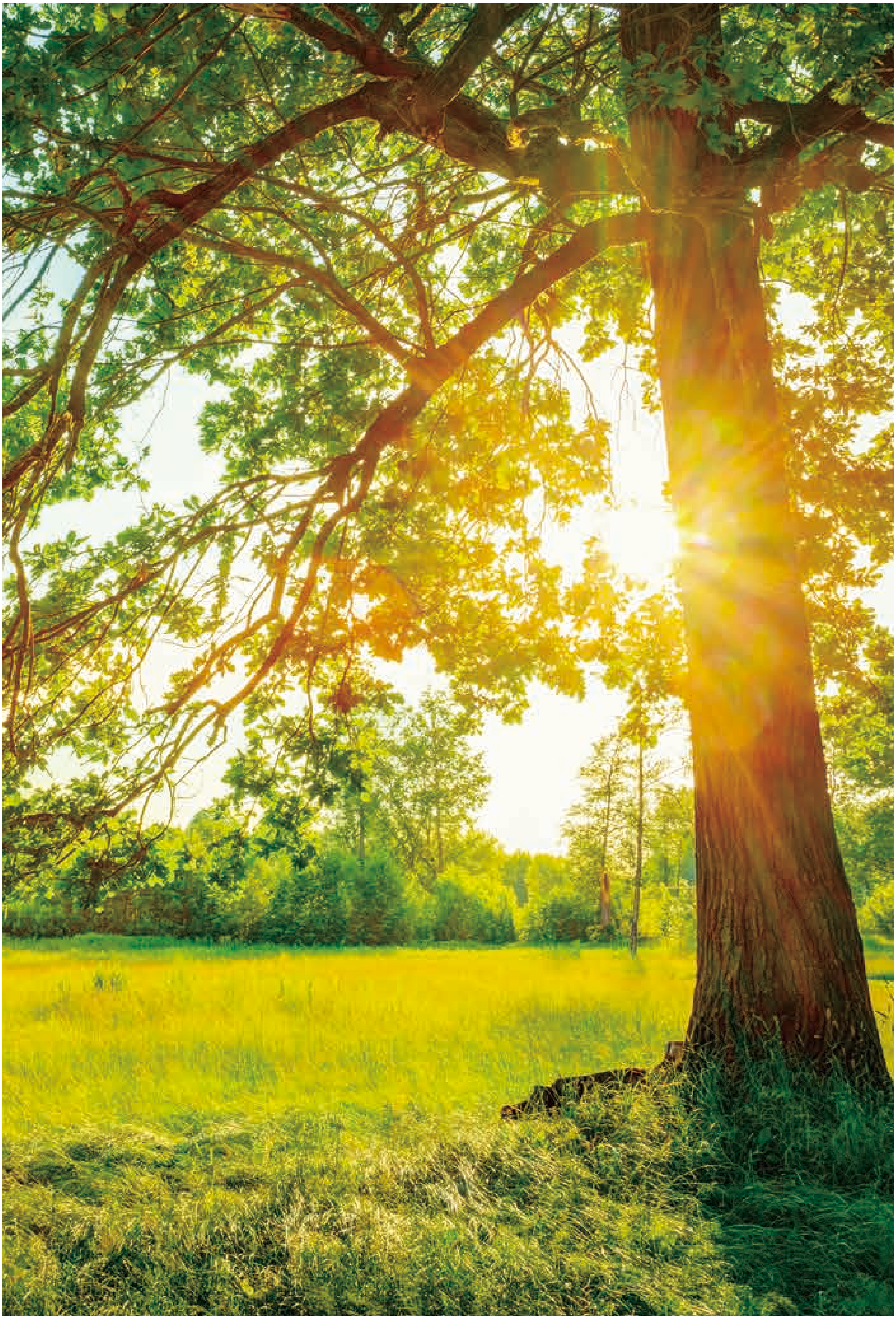
COMPOSITION AND ACCOUNTABILITY

- Comprises one director and one alternate director appointed by each founding member
- Non-resident board and meets at least quarterly
- Responsible for the general operations of NDB

The Board of Directors is responsible for the general operations of NDB, and based on the guidance and direction provided by the Board of Governors, is responsible for approving business strategy, country strategies, loans, guarantees, equity investments, borrowings, operational policies and procedures, technical assistance, financial reporting and budget review and approval.

Each of the founding members appoints one director and one alternate director for a term of two years. In accordance with the Articles of Agreement, directors may be re-elected for more than one term. The Chairman of the Board of Directors is appointed from among the directors for a term of four years.

NDB has a non-resident board. This enables swift, flexible and cost-effective decision-making. In order to ensure full transparency and effective governance, NDB's Corporate Secretary reports directly to the Board of Directors.



The Board of Governors

Mr. Henrique de Campos Meirelles
Governor of NDB

Minister of Finance[1] – Federative Republic of Brazil

Mr. Henrique de Campos Meirelles was appointed Minister of Finance of Brazil in 12 May 2016. He also served as Governor of the Central Bank of Brazil from 2003 to 2010.

Mr. Meirelles has a 28-year career in the banking and financial sectors. He was President of BankBoston Corporation, which he joined in 1974; Chairman of Lazard Americas, Kohlberg Kravis and Robert's Senior Advisor; Chairman of the Advisory Board of Bedrock; Member of the Council of Lloyd's of London; and Member of the Board of Directors of Azul Linhas Aéreas Brasileiras (Azul Brazil Airlines).

Mr. Meirelles was a member of the Advisory Board of Harvard Kennedy School of Government, the Sloan School of Management at the Massachusetts Institute of Technology and the Carroll School of Management at the Boston College. He was also the head of Associação Viva o Centro, an NGO he founded in the 1990s for the revitalization of the downtown area in São Paulo. In 2002, he was elected a Congressman in Brazil, representing the State of Goiás.

Mr. Meirelles holds a Bachelor of Engineering degree from the University of São Paulo and a Master of Business Administration degree from the Federal University of Rio de Janeiro.

Mr. Anton Siluanov
Governor of NDB

Minister of Finance – Russian Federation

Mr. Anton Germanovich Siluanov worked as an economist and then a senior economist at the Finance Ministry of the Russian Soviet Federative Socialist Republic (RSFSR) from August 1985 to March 1987. He served in the Soviet Army from March 1987 to May 1989. He was chief economist, first rank economist, sub-department deputy head and adviser at the Finance Ministry of RSFSR (May 1989 to January 1992); department deputy head at the Economy and Finance Ministry of the Russian Federation (February 1992); department deputy head at the Budget Board, division head and deputy head of the Budget Department and deputy head of the Budget Department at the Finance Ministry (February 1992 to October 1997); head of the Department of Macroeconomic Policy and Banking of the Finance Ministry (October 1997 to July 2003). Since 22 March 2001, Mr. Siluanov has been a member of the Board of the Finance Ministry. He was Deputy Finance Minister of the Russian Federation (July 2003 to May 2004); Director of the Department of Intergovernmental Fiscal Relations at the Finance Ministry (May 2004 to December 2005); Deputy Finance Minister of the Russian Federation (December 2005 to September 2011); and Acting Finance Minister of the Russian Federation (September 2011 to December 2011). He became the Minister of Finance of the Russian Federation from September 2011 to December 2011 and was reappointed as the Minister of Finance in May 2012.

Mr. Siluanov graduated from the Moscow Finance Institute with a degree in Finance and Credit in 1985.

[1] On 10 April 2018, Mr. Eduardo Refinetti Guardia was appointed Minister of Finance.
[2] On 19 March 2018, Mr. Kun Liu was appointed Minister of Finance.
[3] Mr. Nhlanhla Nene was appointed Minister of Finance on 2 March 2018.

The Board of Governors listed in the 2017 Annual Report is as at 31 December 2017.

Mr. Arun Jaitley
Governor of NDB

Minister of Finance, Corporate Affairs and Information and Broadcasting – Republic of India

Mr. Arun Jaitley has been the Union Minister of Finance and Corporate Affairs since 26 May 2014. He is leader of the Rajya Sabha, the upper house of the Indian Parliament. He is a lawyer and prominent leader of the Bharatiya Janata Party (BJP). In his prolific career as a lawyer, he was designated as Senior Advocate in 1989 and has made significant contributions in the areas of economic liberalisation and legal reforms.

Mr. Jaitley has been a member of the BJP National Executive since 1991. Mr. Jaitley had also been the Minister in the National Dependent Alliance (NDA) (October 1999 to July 2002 and January 2003 to February 2004); the Union Minister of Information and Broadcasting (November 2014 to July 2016); and the Union Minister of Defence (May 2014 to November 2014 and March 2017 to September 2017). He is also India's representative on the Board of Governors of several Multilateral Development organisations, such as IBRD, IMF, ADB and AIIB.

Mr. Jaitley studied at St. Xavier's School, New Delhi from 1957–1969. He graduated with an honours degree in Commerce, Bachelor of Commerce from Shri Ram College of Commerce, New Delhi in 1973. He obtained his LLB degree from the University of Delhi in 1977.

Mr. Jie Xiao
Governor of NDB – Chairman of the Board of Governors

Minister of Finance[2] – People's Republic of China

Mr. Jie Xiao is the Finance Minister of the People's Republic of China.

Mr. Xiao was the Director General of the General Department and the Treasury Department of the Ministry of Finance (1998 to September 2001); was appointed as the Vice Finance Minister (September 2001 to July 2005); served as the Vice Governor of Hunan Province (July 2005 to August 2007); was appointed as the Minister of the State Administration of Taxation (August 2007 to March 2013); and served as the Deputy Secretary-General of the State Council (a minister-level position with responsibility for overseeing the work of the General Office of the State Council) (March 2013 to October 2016). In October 2016, he was appointed as the Finance Minister.

Mr. Xiao is a member of the 18th Central Committee of the Communist Party of China (CPC) and also served as a member of the 17th Central Committee of the CPC.

Mr. Xiao holds a PhD in Economics and studied in West Germany from November 1987 to April 1989.

Mr. Malusi Gigaba
Governor of NDB – Deputy Chairman of the Board of Governors

Minister of Finance[3] – Republic of South Africa

Mr. Malusi Knowledge Nkanyezi Gigaba MP is the Minister of Finance in the Republic of South Africa, appointed on 31 March 2017. He was previously the Minister of Public Enterprises (May 2009 to May 2014) and the Minister of Home Affairs (May 2014 to March 2017).

Mr. Gigaba is a member of the African National Congress and serves on its National Executive Committee and National Working Committee. Born at Eshowe in KwaZulu-Natal on 30 August 1971, Mr. Gigaba is a teacher by profession and an academic.

Mr. Gigaba graduated with a Bachelor of Pedagogics (Education) degree in 1991 and followed it with a Master of Arts degree in Social Policy, majoring in Urban Affairs and Policy in 1993 from the University of Durban-Westville. In 2003, he graduated with a National Certificate in Economics and Public Finance at the University of South Africa (UNISA).

The Board of Directors

Mr. Marcello de Moura Estevão Filho
Director of NDB – Chairman of the Board of Directors

Secretary for International Affairs, Ministry of Finance – Federative Republic of Brazil

Mr. Marcello de Moura Estevão Filho is Secretary for International Affairs at the Ministry of Finance in Brazil since December 2016. Previously, Mr. Estevão worked as an economist in the Federal Reserve Board between 1995 and 2000 in Washington. Also, he was a chief-economist in the Tudor Investment Corporation from 2013 to 2015 in London and Greenwich. Prior to that he worked for the IMF from 2000 to 2016, where he held different roles.

Mr. Sergei Storchak
Director of NDB

Deputy Minister of Finance – The Russian Federation

Mr. Sergey Anatolyevich Storchak served in the Soviet Army from November 1972 to November 1974. He served as second secretary of the USSR Permanent Mission to the UN Office and other International Organisations of the Ministry for Foreign Affairs of the USSR (December 1988 to February 1992); second secretary, senior researcher of the Permanent Mission of the Russian Federation to the UN Office and other International Organisations of the Ministry for Foreign Affairs of the Russian Federation (February 1992 to August 1994). He then held several different roles at the Finance Ministry of the Russian Federation and has been the Deputy Finance Minister of the Russian Federation since November 2005.

The Board of Diretors listed in the 2017 Annual Report is as at 31 December 2017.

Mr. M.M. Kutty
Director of NDB

Additional Secretary, Department of Economic Affairs, Ministry of Finance – Republic of India

Mr. M.M. Kutty is Special Secretary (Economic Affairs), Ministry of Finance. He is a member of the Indian Administrative Service with over 32 years' experience at the state and national levels. He has held crucial positions in the Federal Government Departments of Urban Development and Environment, Forests and Climate Change. Dr. Kutty has rich experience in the management of autonomous bodies, companies and state enterprises and served on the Board of the Delhi Metro Rail Corporation, National Capital Region Transport Corporation and Power Distribution Companies of Delhi. His international experience includes serving as Bureau Member and Vice President of the Asia-Pacific Region for the fifth International Conference on Chemicals Management (ICCM5).

Mr. Shixin Chen
Director of NDB

Director General of the Ministry of Finance – People's Republic of China (PRC)

Mr. Shixin Chen is the Director General of the Department of International Economic and Financial Cooperation, Ministry of Finance of the PRC. Mr. Chen has served in a number of senior positions at the Ministry including as the Division Chief and Deputy Division Chief at Budget Department (till 2005); Deputy Director General of Tax Policy Department (2005 to 2007); and Deputy Director General of International Department (2007 to 2013). He was Executive Director for China at the World Bank Group from 2013 to 2016. He was then also a member of Audit Committee and the Committee on Governance and Administrative Matters (COGAM) under the Board of Executive Directors.

Mr. Dondo Mogajane
Director of NDB

Director General of the National Treasury – Republic of South Africa

Mr. Mogajane joined the National Treasury in 1999 as a Deputy Director and has worked in various areas including intergovernmental relations, provincial budget analysis and international economic relations divisions. Between 2007 and 2010, he represented South Africa at the Executive Board of the World Bank as senior advisor for Africa Group 1 countries. Mr. Mogajane was appointed as the Chief of Staff in the Ministry of Finance (2010 and May 2014); acting Chief Operating Officer (May 2014 to May 2015); Deputy Director General responsible for the Public Finance division at National Treasury (June 2015 to June 2017). Mr. Mogajane was appointed as the Director General of the National Treasury on 8 June 2017.

Committees

n accordance with the Articles of Agreement the Board of Directors has constituted the Credit and Investment Committee; the Audit, Risk and Compliance Committee; the Budget, Human Resources and Compensation Committee; and the Finance Committee.

COMMITTEE	COMPOSITION AND ACCOUNTABILITY
Audit, Risk and Compliance Committee (ARC Committee)	• Comprises all members of the Board of Directors and meets at least quarterly • Assists the Board of Directors and oversees the financial reporting and disclosure process, compliance with NDB's code of conduct and ethics, the adequacy and effectiveness of internal controls, financial controls and risk management framework
Budget, Human Resources and Compensation Committee (BHRC)	• Comprises all members of the Board of Directors and meets at least quarterly • Assists the Board of Directors and oversees the budget, human resources and compensation related activities of NDB
Finance Committee	• Comprises the President and the four Vice Presidents and meets monthly or as needed • Oversees the financial matters of NDB relating to credit, operations, treasury and associated risks
Credit and Investment Committee (CIC)	• Comprises the President and the four Vice Presidents and meets monthly or as needed • Responsible for decisions on loans, guarantees, equity investments and technical assistance within the limits established by the Board of Directors

Senior Management

The senior management team is composed of the President and four Vice Presidents.

In 2015, the Board of Governors elected Mr. K.V. Kamath from India as the first President of NDB. The President is also a member of the Board of Directors, but has no voting rights except when the outcome of a vote taken by the Board of Directors requires a deciding vote.

The Vice Presidents, from each of the founding member countries, are appointed by the Board of Governors, based on the recommendation of the President.

Mr. K.V. Kamath
President

Mr. Kamath is one of India's most accomplished and acknowledged business leaders. He started his career in 1971 with ICICI Bank, India's largest private sector bank. In 1988, he joined the Asian Development Bank in the private sector department. He returned to India in 1996 as Managing Director & Chief Executive Officer of ICICI Bank where he was a driving force behind ICICI Bank's global expansion, making it India's first 'universal bank'. Mr. Kamath retired as Managing Director and Chief Executive Officer of ICICI Bank to become the non-executive Chairman from 2009 to 2015. Mr. Kamath also served on the board of Schlumberger Limited and as Chairman of Infosys Limited, India's largest software company.

Mr. Vladimir Kazbekov
Vice President and Chief Administrative Officer

Mr. Kazbekov started his career in the Russian Ministry of Foreign Affairs, predominantly in Asian countries, where he served for nearly 20 years before being appointed as the Deputy Director of the Foreign Policy Department of the Presidential Executive Office of the Russian Federation. Mr. Kazbekov gained more than 15 years of experience in development banking at the Russian National Development Bank, Vnesheconombank, where he was appointed as an executive and contributed extensively to the development of the BRICS interbank cooperation mechanism.

Mr. Leslie Maasdorp
Vice President and Chief Financial Officer

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 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.

Mr. Xian Zhu
Vice President and Chief Operating Officer

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 the World Bank Group (WBG) from 2012 to 2015. Between 2002 and 2012, he served at the WBG 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 WBG. 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.

Mr. Sarquis José Buainain Sarquis
Vice President and Chief Risk Officer

Since 1991, Mr. Sarquis J. B. Sarquis has held several positions at the Ministry of External Relations in Brazil, among which are Head of International Economic Organisations and Adviser on international finance, investment, trade and development. More recently, he has been Deputy Chief of Mission at the Embassy in Tokyo (2014-2017) and previously, he was Minister-Counsellor for the Organisation for Economic Co-operation and Development (OECD) affairs at the Embassy in Paris (2009-2014).

He has accumulated extensive experience in working with multilateral organisations, including the OECD, the International Monetary Fund, the World Bank, the World Trade Organisation and the United Nations. He has also lectured, researched and participated in major international conferences in the fields of macroeconomics, growth, trade and international finance.

Staff of NDB

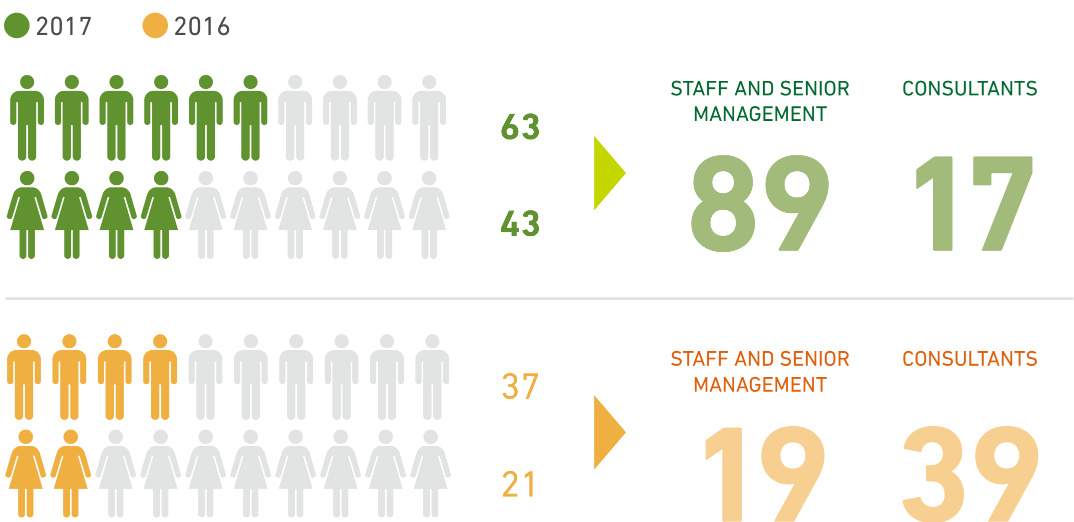
NDB staff are its most important investment and the team creates an environment that embraces diversity and operational efficiency. NDB establishes conditions for the personal development of staff, regardless of race, gender, disability, sexual orientation, ethnicity, religion and marital or family status. The human resourcing of NDB is done in accordance with the 2017-2021 General Strategy where growth and development is mapped to the operational requirements and activities of NDB.

Diversity is a core value. NDB is committed to measures that ensure diversity and its corresponding objectives. By December 2017, the number of staff had increased to 106, which is an 83 per cent increase on the December 2016 staff count of 58. The ratio of men to women was 59:41.

NDB places special emphasis on agility and being able to act swiftly and responsibly. A young, energetic workforce ensures rapid responses to dynamic changes in the operating and financial landscape, bringing fresh ideas, new approaches and innovation. Young professionals form the nucleus of NDB's team and they represent the key to NDB's future success. More than 42 per cent of the staff are under the age of 32.

In its first full year of operations, NDB relied on more than 30 experienced consultants and secondees from commercial banks, national development banks, the governments of member countries and partner multilateral development banks. In 2017, which was NDB's second full year of operations, it relied on approximately 20 consultants and secondees. NDB is grateful for the support received from its partner institutions and their staff, some of whom have now joined NDB.

HUMAN RESOURCES



Key Milestones in NDB's Development

SEP 2017

- NDB held a ground breaking ceremony for its permanent headquarters in Shanghai, China

AUG 2017

- NDB opened its first regional office in Johannesburg, South Africa

JUN 2017

- The Board of Governors approved NDB's 2017-2021 General Strategy

APR 2017

- The Board of Governors approved the terms, conditions and procedures for the admission of new members

JAN 2017

- The Board of Governors approved the establishment of the Project Preparation Fund (PPF)

JUL 2016

- The Board of Directors approved the first project in Russia, to the amount of USD 100 million
- NDB issued its first green bond in the Chinese interbank bond market

APR 2016

- The Board of Directors approved the first batch of loans to projects in Brazil, India, China and South Africa at a combined value of USD 811 million
- The Board of Directors authorised NDB to raise resources up to an aggregate amount of RMB 10 billion

FEB 2016

- The Headquarters Agreement was signed with the Government of the People's Republic of China
- NDB received an AAA China domestic rating from two Chinese rating agencies

Key Events in 2017

NDB's Second Annual Meeting

NDB's second annual meeting was held in New Delhi, India, from 31 March to 2 April 2017 and was attended by government officials, representatives of other multilateral development banks and national development institutions, the BRICS Business Council, commercial bankers, representatives of municipalities and Civil Society Organisations (CSOs). A number of strategic events were held during the meeting, including the seventh meeting of the Board of Directors, a seminar on financing sustainable development and a seminar on urban planning. During the seminar on financing sustainable development, government representatives discussed their countries' needs for sustainable infrastructure and innovative measures to finance sustainable infrastructure.

The second seminar on urban planning explored some of the key challenges that cities, urban planners and policymakers in BRICS countries face and the different measures they are taking to address them. It was agreed that this platform for knowledge-sharing helped calibrate and intensify their various plans. Case studies facilitated the dialogue. The Shanghai Municipal Government, which has driven a complete transformation of one of the world's largest cities in the last two decades, presented the Shanghai experience. A second case study was presented by the authority responsible for developing India's newest city, Amaravati, demonstrating the challenges of planning and building a new city. These case studies provided the context for discussing and sharing practical solutions to the challenges of modern city planning.

During the Annual Meeting, the Board of Governors approved the General Strategy, in principle, and the terms, conditions and procedure for the admission of new members, among other issues.

NDB also signed five memoranda of understanding to promote cooperation with the European Investment Bank, the European Bank for Reconstruction and Development, the Asian Infrastructure Investment Bank, the Eurasian Development Bank and International Investment Bank. In New Delhi, NDB had the opportunity to meet with representatives of CSOs to discuss a range of issues, including project information, channels for contributing to NDB's policies, diversity and gender equality and NDB's social and environmental contribution. This engagement was followed by a two-day workshop hosted by NDB in Shanghai on 26 and 27 October 2017.

Mr. Arun Jaitley, the Minister of Finance of India, served as the second Chairman of the Board of Governors until 2 April 2017, when Mr. Jie Xiao, the Minister of Finance of China, was elected the Board's new Chairman.

Launch of NDB's Africa Regional Centre (ARC)

NDB opened its first regional office in Johannesburg, South Africa, in August 2017. The Africa Regional Centre (ARC), is tasked with identifying and preparing projects to strengthen NDB's footprint in South Africa, and then expanding its activities throughout Africa.

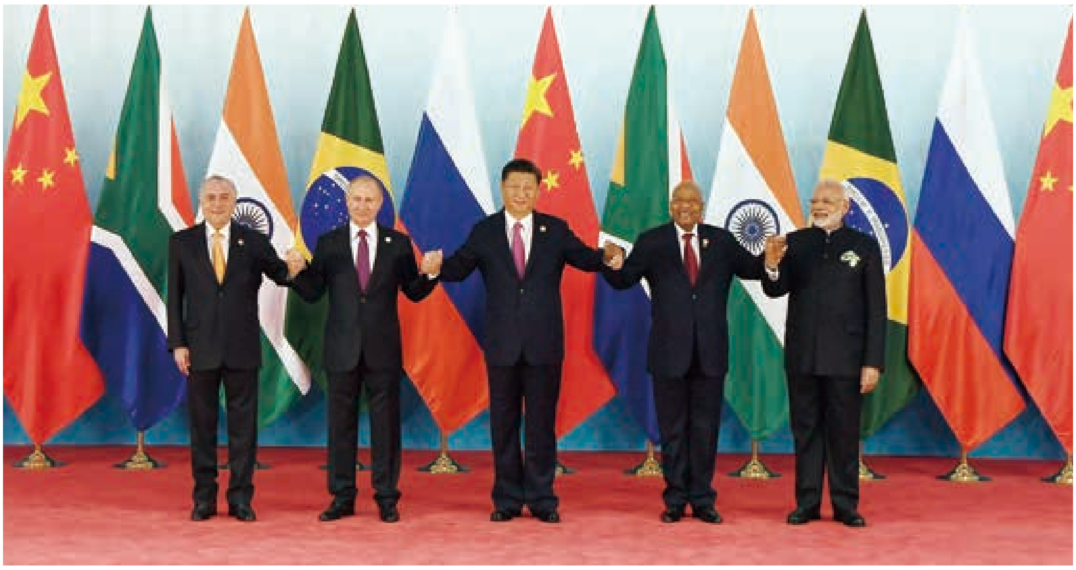
The offices will be lean and project-focused and seek to work closely with governments, the private sector, financial institutions and project implementation agencies, to develop and expand project pipelines.

Key Events in 2017

Signing of the Contribution Agreements for the Project Preparation Fund

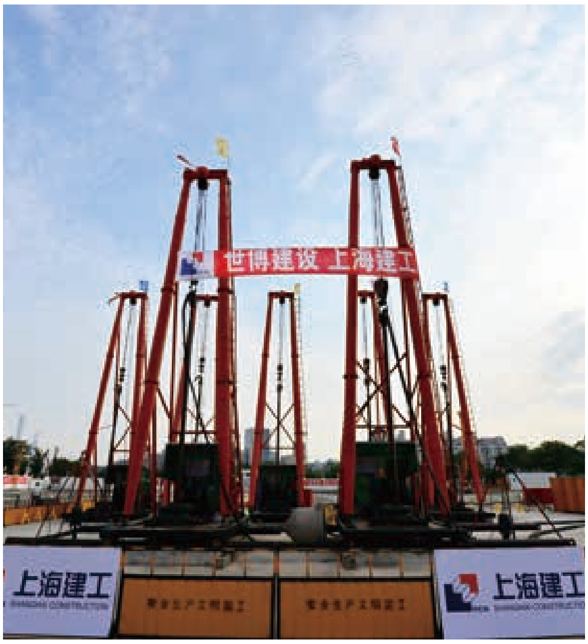
At the ninth BRICS Summit held in September 2017 in Xiamen, China, NDB also signed the first PPF contribution agreement with the Ministry of Finance of the People's Republic of China. The second PPF contribution agreement was signed with the Ministry of Finance of the Russian Federation in October 2017.

The establishment of the PPF was approved in January 2017 by the Bank's Board of Governors. The PPF is a multi-country contributor fund that will enhance NDB's project preparation capabilities, facilitate feasibility studies and support project implementation. The fund will leverage local expertise and enhance the project preparation capacity of member countries.



Ninth BRICS Summit, Xiamen

NDB played an active role at the ninth BRICS Summit held in September 2017 in Xiamen, China, where agreements were signed for three loans totalling USD 800 million for projects in China. During the summit, the president briefed the five leaders about the progress of the Bank and outlined the targets for the coming year. NDB signed a memorandum of understanding with the BRICS Business Council to build a long-term, stable and mutually beneficial relationship to promote cooperation among the BRICS countries and support their development. NDB also signed memoranda of understanding with China Development Bank, Industrial and Commercial Bank of China and Agricultural Bank of China, further strengthening its partnerships with Chinese financial institutions.



Ground-breaking Ceremony for NDB's Headquarters in Shanghai

On 2 September 2017, the ground-breaking ceremony for NDB's headquarters was held at Shanghai Expo Park. China's Minister of Finance, Mr. Jie Xiao, the Mayor of Shanghai, Mr. Ying Yong, representatives of Consulates-General in Shanghai, members of the BRICS Business Council and other distinguished guests attended the ceremony, along with NDB's Board of Governors, senior management and staff.

Meeting with Representatives of CSOs in Shanghai

In October 2017, NDB hosted a workshop with representatives of more than 30 CSOs from all member countries at its offices in Shanghai. The workshop provided an opportunity for dialogue between NDB and the CSO representatives, a key stakeholder group. As the newest multilateral development bank, NDB received valuable perspectives and feedback from CSO representatives on a range of matters, which will improve its policies and operating guidelines.

Operating Context of NDB

BRICS CONTRIBUTION TO GLOBAL GROWTH

45%

Transitioning to a green economy

NDB, within its institutional mandate and lending capacity, is committed to supporting its members to achieve a greener and more sustainable economy. NDB aims to play an important role in attracting, leveraging and mobilising investment for financially, socially and environmentally sustainable projects.

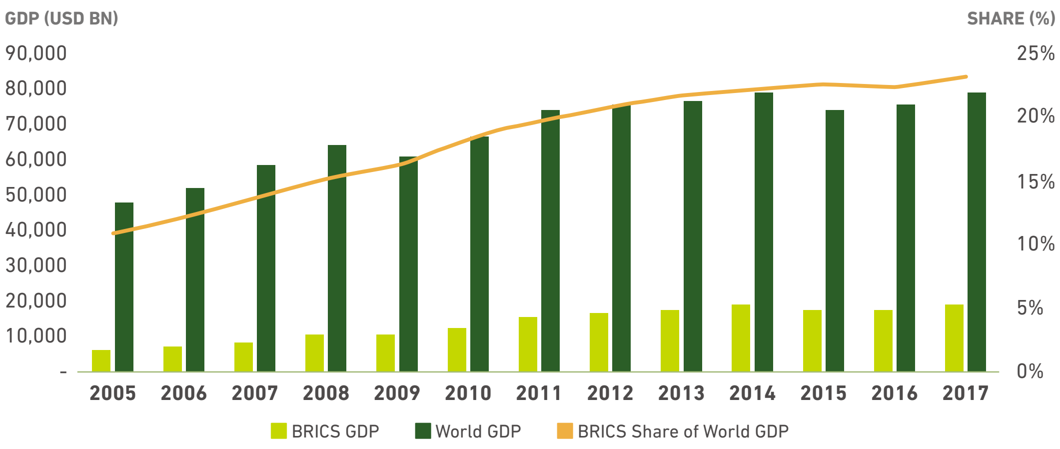
NDB is committed to introducing innovative approaches to its business activities and has pursued green finance as a source of funding. In 2016, NDB was the first multilateral development bank to issue a green bond in China to raise funds to support projects seeking to mitigate the effects of climate change. The currency and interest rate risks were hedged using derivatives.

All members of NDB are signatories to the Paris Climate Agreement and the United Nations 2030 Agenda for Sustainable Development. NDB strongly supports each member's commitments to address the risks of global warming, environmental challenges and measures to achieve the United Nation's sustainable development goals.

The BRICS countries in the current global economy

The BRICS countries cover more than a quarter of the world's land area and are home to more than two-fifths of the world's population. BRICS has emerged as a new centre of gravity in the global economy. In 2016, the group's combined economic output was approximately 22 per cent of global GDP, up from around 11 per cent in 2005. As of today, the BRICS combined GDP in PPP terms is greater than that of the G7. Despite the potential risks to the global economy posed by rising protectionism and increasing insularity in some developed economies, the BRICS countries continue to be a major driving force of the world economy, contributing around 45 per cent of global growth.

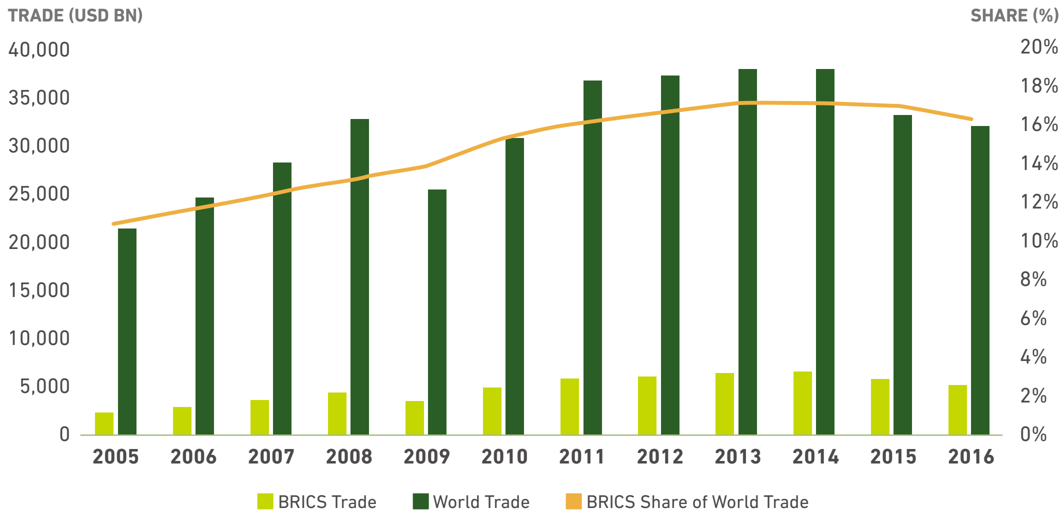
BRICS Countries' Share of World GDP



Data Source:
IMF World Economic Outlook, October 2017.

The BRICS countries accounted for almost one-sixth of global trade in 2016.

BRICS Countries' Share of World Trade



Data Source:
IMF World Economic Outlook, October 2017.

As a result of the increasing links among the five countries, the BRICS countries have become an important cooperation platform not only for themselves but also for other emerging markets and developing economies. The cooperative spirit that characterises BRICS has been an important driver for initiatives such as NDB and the Contingent Reserve Arrangement (CRA[4]), reflecting the countries' shared views on the need to collaborate to address global economic challenges and promote inclusive growth and sustainable development. Other initiatives in areas of common interest have also been set in motion.

Members' Overview and NDB Activities

The economic prospects for BRICS economies are favourable – all five countries experienced positive growth in 2017 and are expected to further expand in 2018, with China and India witnessing the fastest growth rates among the G20 countries. NDB members have large and untapped potential for infrastructure investment and the Bank aims to be a dependable partner in their developmental efforts. According to the Global Infrastructure Hub, all five countries combined invested around USD 1,400 billion in infrastructure in 2017. Nevertheless, the identified infrastructure gap for the block as of 2017 was approximately USD 140 billion.

[4] The BRICS CRA, which is a USD 100 billion agreement, was established to provide short-term liquidity support to member countries through currency swaps to help mitigate actual or potential short-term balance of payments problems. The CRA will help members to provide mutual support and further strengthen financial stability. It will also contribute to strengthening the global financial safety net and complement existing international arrangements.

BRICS' IDENTIFIED INFRASTRUCTURE FINANCING GAP

USD 140 BILLION

Brazil

After the worst recession in Brazil's economic history, economic growth turned positive in 2017 boosted by domestic demand and exports. Industrial production progressively picked up while inflation dropped below the central bank's target and interest rates reached historic lows. Fiscal consolidation efforts, including the introduction of a cap on federal spending, state debt restructuring and the approval of a labour reform law, have also restored investor confidence and kept the level of foreign direct investment (FDI) inflows stable.

Brazil's low investment is in great part a result of the country's persistently low savings. Low levels of investment in infrastructure have been hampering the country's competitiveness and long-term growth prospects – being a large commodity exporter, Brazil would certainly benefit from projects that alleviate bottlenecks in its highway network and port system. Other sectors in strong need of investment include sanitation, energy and urban mobility. The Global Infrastructure Hub estimates the country's infrastructure gap is more than USD 30 billion annually of which 90 per cent relates to the logistics sector, especially roads.

Given the government's limited fiscal space to undertake large infrastructure investment, NDB is developing projects in states that have enough capacity to borrow for development projects and explore opportunities for lending to the private sector. NDB's first operation in Brazil was a USD 300 million non-sovereign two-step loan to Banco Nacional de Desenvolvimento Econômico e Social (BNDES). The objective of the project is to contribute to the development of clean energy sources in the country and assist BNDES in its efforts to further develop a secondary market for infrastructure debentures in Brazil.

Russia

Rising exports and strong consumer demand supported Russia's economy in its return to a growth path in 2017. Both inflation and unemployment reached historically low levels. The rouble appreciated considerably in 2017, propped up by strong investment inflows, rising oil prices and improved market confidence. Growth projections for 2017/18 – 2019 stand at 1.5 – 2.0 per cent, around potential output. Russia's public debt to GDP ratio is low and stable. Budget deficit is on a declining trend as a result of measures to curb public expenditure. The new fiscal rule suggests that the economy will be less sensitive to oil price fluctuations.

Russia still actively relies on public finance as the main source of investment. According to the country's statistics service, public investment in infrastructure in 2017 was USD 33 billion (both federal and regional budgets), while private investment in fixed assets (excluding own sources of finance) amounted to USD 65 billion. Total infrastructure investment accounts for 6 per cent of Russia's GDP.

At the same time, according to the most conservative estimates the infrastructure gap is around USD 20 billion annually.

The authorities are modernising institutions and mechanisms as well as improving legislation to attract private capital to

The construction of two small hydroelectric power plants in Karelia was NDB's first project in Russia

infrastructure financing, one example is the recently adopted Roadmap for further development of public-private partnerships.

The vast physical territory and sizable consumer base provide ample opportunities for diversification, including in non-commodity sectors. Expanding into new industries and services will demand additional improvements in transportation, communications, power generation and logistics, especially in more remote areas. There are also opportunities in the development of infrastructure for connectivity through trade and transport corridors and logistic centres that would facilitate regional integration and trade development.

NDB is expected to play a significant role both in catalysing private capital to infrastructure development and contributing international standard practices in planning and implementing infrastructure projects. Up to 2017, NDB had approved more than USD 629 million for projects in Russia, including in renewable energy generation and transportation.

India

India experienced strong growth in 2017, propelled by higher government spending and a pick-up in consumption and exports. Growth is expected to increase even further in the near term, following the gradual implementation of the government's

structural reform agenda, which has thus far included a demonetisation program (2016), the passage of the Insolvency and Bankruptcy Code (2016) and the introduction of the goods and services tax (2017). India has spent over USD 1 trillion on infrastructure in the last ten years. Despite this, India has the second highest infrastructure deficit in the world. Efforts are being made on multiple fronts to augment resources for infrastructure investment: developing brownfield assets as a separate asset class for infrastructure investment and credit enhancement of bonds issued by infrastructure companies. The structural reforms will help improve private investors' confidence, but other challenges still need to be addressed, such as access to financing and regulatory hurdles.

For NDB, India presents a host of possibilities in transportation, renewable energy, water and sanitation, urban infrastructure and pollution reduction. India may also benefit from resources from the PPF, once it becomes operational. The Bank intends to help increase the quality and bankability of projects not only by improving project preparation capabilities, but also by expanding financing opportunities, including in its local currency. Current projects approved in India total more than USD 1.4 billion and include transportation, water and sanitation and renewable energy.

China

China's economy continued to perform strongly in 2017 on the back of robust domestic and external demand. Inflation remained stable while consumer confidence and foreign direct investment increased. In November 2017, the government announced measures to ease or lift restrictions to foreign investment in its financial markets. Growth in 2018 will remain stable and sound as the government gradually changes its focus away from purely rapid economic growth towards a more balanced growth model, emphasising the importance of environmental protection, income distribution and economic and financial stability.

The switch to stable, balanced and sustainable development coupled with a reduction in expansionary stimuli may help reduce overcapacity, forestall and defuse potential debt risk, including at the local government level and mitigate risks to financial stability. Investment in infrastructure is expected to increase at a limited pace, but will still remain a driver of economic growth, especially in green and renewable energy.

NDB is ready to contribute to this transition, not only in operational, but also in financial terms. In 2016, the Bank issued a green bond in China for the first time, for an amount of RMB 3 billion (equivalent to USD 449 million). By the end of 2017, NDB had already approved four projects in China, including in renewable energy and water and sanitation, totalling USD 895 million. Of the four projects, three are renminbi-denominated projects.

South Africa

The South African economy resumed growth in 2017, with the rebound being fuelled by agriculture, mining and manufacturing. Growth is expected to continue to accelerate in 2018, but at a modest rate. Investment in infrastructure reached more than USD 20 billion[5] in 2016, but South Africa still faces an infrastructure gap of USD 4 billion according to the Global Infrastructure Hub. Boosting investment in financing infrastructure will enable South Africa to address some structural challenges such as persistently high unemployment and low investment. In this sense, NDB tends to operate in line with South Africa's National Development Plan, bringing a positive impact in much needed sectors, such as power generation, transportation and telecommunications.

So far NDB has approved a USD 180 million project in renewable energy in South Africa with a sovereign guarantee and more projects are expected to be included in the pipeline. Going forward, the Bank will further enhance its engagement with South Africa, including through initiatives under the Strategic Integrated Projects identified by South Africa's Presidential Infrastructure Coordinating Commission.

The opening of the ARC in August 2017 is a concrete step in this direction. The ARC will help to make South Africa a significant country of operations of the Bank, accelerating the process of project identification and preparation in close partnership with relevant stakeholders in South Africa.

[5] 2018 Budget Review National Treasury Republic of South Africa

Strategy of NDB

In June 2017, the Board of Governors approved NDB's General Strategy for 2017-2021 which sets out the framework for NDB's evolution over the coming years.

The overarching goal of the General Strategy is to guide NDB's path beyond its establishment phase and to strengthen its role as a global multilateral development bank. NDB's vision for developing and implementing solutions for a sustainable future permeates the General Strategy.

Sustainable Infrastructure

Ensuring that NDB's infrastructure projects safeguard the physical and social environment of current and future generations will be crucial for achieving faster and more inclusive economic growth. Sustainable infrastructure is at the core of NDB's General Strategy, and NDB will dedicate around two-thirds of its financing commitments in its first five years to projects that integrate economic, environmental and social criteria throughout their lifecycle.

New Relationships

The relationship between NDB and member countries is based on the principles of equality, mutual respect and trust. NDB's response to seeking solutions to development challenges is built on recognising each country's socio-economic context and realities. This approach is grounded in the founding members' own experiences and shared belief that solutions to securing funding for projects will be most successful, when borrowing countries are in charge of their own development paths.

New Approaches

As a new multilateral development bank, NDB is building a culture of innovation and adaptability in its work. Similarly to existing multilateral development banks, NDB places a high priority on maintaining high quality standards and financial stability. Within those parameters, NDB intends to be innovative and lean on its operations. NDB operates with a lean organisational structure to enhance its agility, effectiveness and efficiency. This will also allow NDB to evolve along with the business environment in which it operates. This approach is essential for creating an institution suited to the realities of current and future global development challenges.

A strategic implementation framework, with key performance indicators, will be developed to align NDB's activities in a common direction and engage all divisions in realising the key institutional goals for 2021. This framework will evolve in response to the experiences and the ongoing changes in the operating environment of the Bank.

Partnerships for Sustainable Growth

NDB approaches its mandate with a strong emphasis on cooperation with peer organisations and support for the joint efforts of the development finance community in promoting global growth and development. As a young institution, NDB has the advantage of learning from past experiences, coming up with innovations and incorporating them into its operations. NDB has established a range of partnerships aimed at strengthening NDB's capabilities and supporting its institutional development. NDB has formalised partnerships through memoranda of understanding with a variety of organisations, including multilateral and national development banks, commercial banks, enterprises and academia.

In 2017, NDB enhanced its outreach program and signed 14 memoranda of understanding. These partnerships enable NDB to focus on critical areas and develop as a lean institution, while supporting the exchange of knowledge and expertise among its members.

Going forward, NDB will continue to build core skills while leveraging the resources and knowledge of partner organisations through collaboration. In particular, expanding NDB's activities to drive sustainable development and meet the growing demand for infrastructure will require continued cooperation with multilateral development banks, national development banks and international organisations. As NDB consolidates its main areas of business, it will enhance its role to support development and cooperation between emerging markets and developing economies.

MOUs signed in 2017

APRIL

1 APR — New Delhi, India
- Asian Infrastructure Investment Bank
- Eurasian Development Bank
- European Bank for Reconstruction and Development
- European Investment Bank
- International Investment Bank

26 APR — Brasilia, Brazil
Fonplata

MAY

14 MAY — Beijing, China
Cooperation on the Belt and Road Initiative

31 MAY — Shanghai, China
Shanghai University of Finance and Economics

JUNE

13 JUN — Hangzhou, China
BRICS Export Credit Agencies

SEPTEMBER

1 SEP — Beijing, China
China Development Bank

2 SEP — Beijing, China
- Industrial and Commercial Bank of China
- Agricultural Bank of China

4 SEP — Xiamen, China
BRICS Business Council

6 SEP — Vladivostok, Russia
Russian Railways

Risk Management

Effective risk management, which is the foundation for sound banking principles, is a requirement set out in NDB's Articles of Agreement. Risk management is a transparent and centralised function that is independent of business operations. Together with enhancing risk awareness and promoting a strong institutional risk prevention and awareness culture across NDB, standards and controls have been developed in a proactive manner to ensure that risk management stays ahead of the curve.

NDB has a robust risk management framework, and its governance structure provides for independent and regular reporting of risk issues to relevant committees of the Board of Directors that include NDB's performance across key risk indicators. NDB's risk management methodology was disclosed in its first annual report for the financial period ending December 2016.

In 2017, risk management was further enhanced through the introduction and reporting of additional risk metrics that address credit, market, operational and liquidity risks. The risk management framework has been strengthened, commensurate with the development of NDB to include the implementation of an operational risk framework.

NDB signed its first loan agreement for the Shanghai Lingang Distributed Solar Power Project, China

NDB Operations

Developing Solutions for a Sustainable Future

The year 2017 was NDB's second full year of operation and was marked by the approval of USD 1.85 billion in loans. While the demand for finance to support infrastructure and sustainable development continues to rise globally, NDB has reaffirmed its commitment to prioritising green and sustainable infrastructure projects in its member countries. All projects approved in 2017 were assessed based on their environmental and social impacts. For those projects that may have potential adverse effects, comprehensive mitigation measures have been prepared and implemented.

NDB's learning curve has mirrored its rapid operational growth rate. This has enabled NDB to work with member countries and assess projects that will have a positive development impact.

The first batch of projects approved in 2016 focused on renewable energy and sustainable development, including wind power, solar energy and the construction of rural roads. In 2017, NDB focused its efforts on identifying and prioritising some of the most pressing needs of its member countries, in order to maximise its developmental impact. Thus, NDB expanded the scope of its operations to also include ecosystem restoration, water supply, irrigation system restructuring and energy saving projects, among others. By applying the lessons learned to date and ensuring that loans were prepared in a diligent and time-efficient manner, NDB has been able to maintain its commitment to remaining lean in its operations and completing loan appraisals within six months without compromising credit quality or the appropriate risk management standards.

Each member of NDB has clear national development goals that are supported by domestic policies and procedures. NDB has developed a comprehensive understanding of these policies and procedures and believes that the adoption of country systems will enable it to properly align itself with member countries' national strategies and development priorities while satisfying its internal risk management policies and procedures.

NDB's Project Cycle

1 BUSINESS DEVELOPMENT	2 CONCEPT	3 APPRAISAL	4 CIC AND BOARD APPROVAL	5 COMMITMENT AND DISBURSEMENT	6 MONITORING
• Business opportunities to support members • Potential projects aligned with NDB's mandate and strategy • Client's needs are assessed	• Assess the project's impact and development contribution • Senior management approval	• Project due diligence, including risk assessment • Negotations and agreement on terms, in principle	• CIC endorsement • Board approval	• Loan signing • Loan effectiveness and disbusements	• Project implementation mission

Loan Portfolio of NDB

LOANS

	Metric	Total	As at 31 December 2017	As at 31 December 2016
Approved loans	Number	13	6	7
Approved loans	USD million	3,419	1,851	1,568
Signed loans	USD million	1,645	1,564	81
Effective loans	USD million	1,345	1,345	-
Disbursements	USD million	24	24	-

LOANS APPROVED BY SECTOR

	Metric	Total	As at 31 December 2017	As at 31 December 2016
Energy	USD million	1,418	200	1,218
Transport	USD million	419	69	350
Water	USD million	1,122	1,122	-
Social Infrastructure	USD million	460	460	-

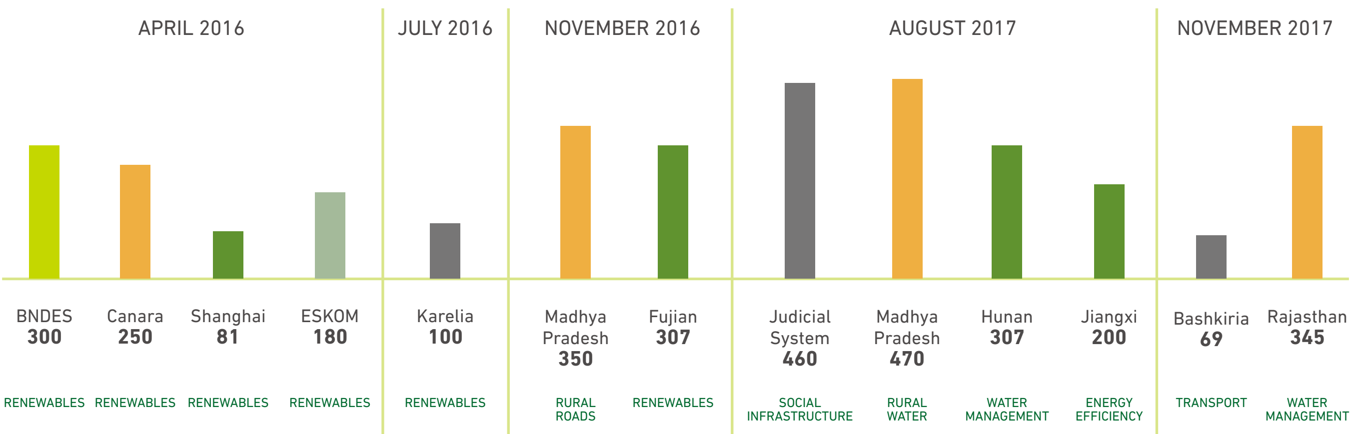
LOANS APPROVED BY CREDIT

	Metric	Total	As at 31 December 2017	As at 31 December 2016
Sovereign	USD million	3,019	1,851	1,168
Non-sovereign	USD million	400	-	400

BOARD APPROVAL (AS AT 31 DECEMBER 2017)

USD MILLION

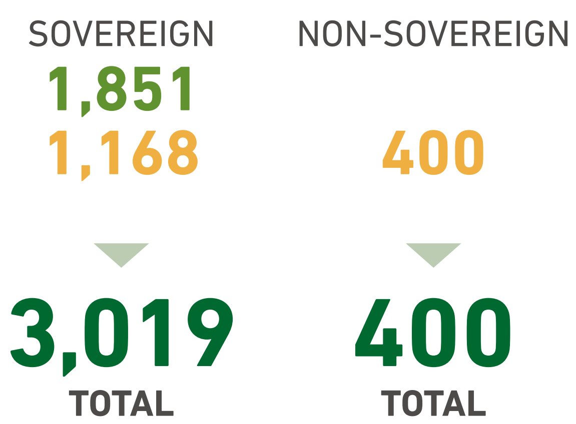
Brazil · Russia · India · China · South Africa



APPROVED LOANS BY CREDIT

USD MILLION

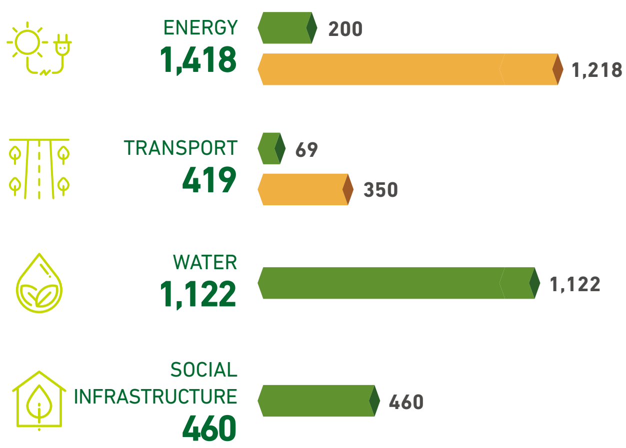
2017 · 2016



APPROVED LOANS BY SECTOR

USD MILLION

2017 · 2016

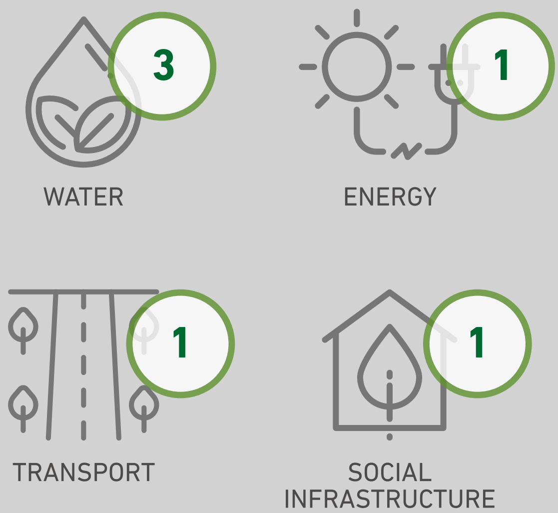


The NDB will provide a sovereign project loan for the Ufa Road Eastern Exit Project in Russia

Project Highlights of 2017

AT-A-GLANCE

The following projects, approved in 2017, highlight NDB's commitment to prioritising and supporting green and sustainable infrastructure.



INDIA

Developing Water Resources

The Indira Gandhi Canal will be rehabilitated

Rajasthan Water Sector Restructuring Project for the Desert Areas

PROJECT LOAN VALUE

USD 345 MILLION

In India, NDB is providing funding to assist the rehabilitation of the Indira Gandhi Canal system to prevent seepage, conserve water and enhance water use efficiency as mandated by both national and state level policies on water use. One of India's driest states, Rajasthan, currently has very low per capita water availability, just 780 cubic meters per person per annum. Demand is currently estimated to be double the current supply, and the gap continues to widen. The semi-arid state faces frequent droughts and the deterioration of its irrigation infrastructure is exacerbated by inefficient water usage, all of which adversely affects two-thirds of Rajasthan's residents, who depend on agriculture for subsistence.

Through a USD 345 million loan, NDB is providing 75 per cent of the funding required to develop the Rajasthan water sector restructuring project. Co-financed with the Government of Rajasthan, the project is expected to improve water use efficiency in Rajasthan by 10 per cent and increase the area of land under irrigation by an additional 150,000 hectares by 2025. The project will also provide technical support to local water users' associations to optimise irrigation operations and improve irrigation management practices.

CHINA

Restoring Critical Ecosystems

Construction work begins

Designer's rendition of part of the ecological development project

Hunan Ecological Development Project

NDB is contributing to restoring the local environment in the heart of Hunan province through a comprehensive ecological development project that includes water resource management and flood control. Through a loan of RMB 2 billion to China, NDB is supporting efforts to improve the water quality of the Xiang River and to restore the ecological balance in Hunan province. The loan will be on-lent to the provincial government and then to eligible sub-projects that aim to improve flood control, restore integrated ecosystems, rehabilitate river courses and improve sewage treatment in the watershed of the Xiang River. The project's positive impact on restoring the environment will be long term and sustainable.

One of the project's key impacts will be to demonstrate, through the joint efforts of Changsha, Zhuzhou and Xiangtan, how the collaborative efforts of a city cluster can combat environmental problems that pose a threat to the local population and local economies.

PROJECT LOAN VALUE

USD 307 MILLION*

*RMB amounts are translated at 0.15368 to USD

CHINA

Helping Industries to Go Low Carbon

Jiangxi Industrial Low Carbon Restructuring and Green Development Pilot Project, China

PROJECT LOAN VALUE

USD 200 MILLION

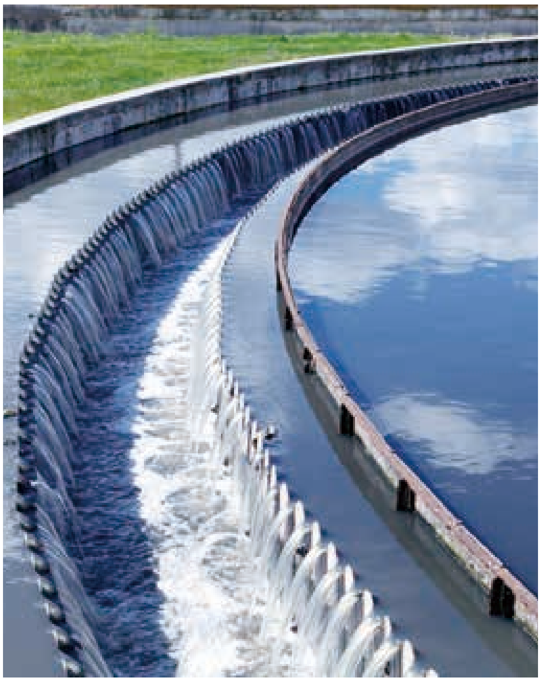
NDB is also assisting Jiangxi province in East China in its efforts to enhance its energy efficiency and lower emissions by transforming traditional local industries.

The rapid pace of industrialisation, which has supported China's economic rise, has significantly boosted the province's GDP, but it has also resulted in a range of environmental problems. Industrial energy consumption currently accounts for over 70 per cent of the province's total energy consumption and the low energy efficiency of heavy industry exacerbates its negative environmental impact. Incentives for companies to invest in upgrading their factories to meet energy conservation goals are limited due to the perception of low financial returns. The local government is establishing a fund to provide tax incentives to industries in the province, with the ultimate goal of enhancing their energy efficiency and reducing energy consumption.

NDB is supporting the province's initiative to enhance energy efficiency and conservation through a loan of up to USD 200 million. The loan will be on-lent to eligible sub-projects with the same developmental goals. On an aggregate level, it has been estimated that the approved sub-projects will achieve an energy saving of 95,000 tons of coal equivalent per annum and reduce carbon emissions by 263,000 tons per annum. These targets will be achieved through increased recycling ratios, upgrades to factory machinery, increased utilisation of heat waste, enhanced institutional capacity and improved energy conservation.

INDIA

Improving Rural Water Supply




Providing access to clean and safe water is a key goal for NDB members

Madhya Pradesh Multi-Village Water Supply Project

NDB is supporting the state of Madhya Pradesh to provide piped drinking water to rural areas and achieve the state's goal of access to clean drinking water for its entire population.

The state government has set strategic goals to improve socio-economic conditions for the local population and address the challenges the state faces in providing access to safe drinking water. The state's population is largely dependent on uncovered wells and hand pumps for drinking water, and many villagers have to walk half a kilometre to get water. Chemical and bacteriological contamination of current water sources is also a growing concern. The need for clean and safe drinking water from sustainable sources is widely recognised by both the state and the central government.

NDB is providing a loan of USD 470 million to finance 70 per cent of the Madhya Pradesh multi-village water supply project. The project will serve 3,400 villages and benefit over three million people. Access to clean water will significantly improve the living standards of the villagers, who will benefit from improved sanitation, reduced water-borne diseases and saving time not having to fetch water.

PROJECT LOAN VALUE

USD 470 MILLION

RUSSIA

Helping Cities to Connect Better

PROJECT LOAN VALUE

USD 69 MILLION

Ufa Road Eastern Exit Project

NDB has extended support to a road development project in Ufa, Russia, a city that is grappling with rising traffic volumes and inadequate road infrastructure.

Improving infrastructure and connectivity with coordinated policy has proven to be an effective way of increasing productivity and the resilience of a country's economy. Ufa is the largest multi-modal transport hub in the Bashkortostan region of Russia and lies at the intersection of main highways, railways and waterways that connect Europe and Asia. Addressing Russia's urban transport challenge is part of the country's development agenda, and a key focus of NDB's operational strategy is to support sustainable infrastructure development in its member countries.

Through a sovereign loan of USD 69 million to the Russian Federation to fund a portion of the USD 701 million project, NDB is providing financing to support the construction of 10 kilometres of road, a 1-kilometre road tunnel, and a 2.5-kilometre bridge across the Ufa River, as well as toll collection stations and other supporting infrastructure. A transport corridor will be constructed to the east of the city centre, connecting it to the surrounding suburbs.

NDB is helping Russia to address its urban transport challenges

RUSSIA

Building a More Transparent Judicial System

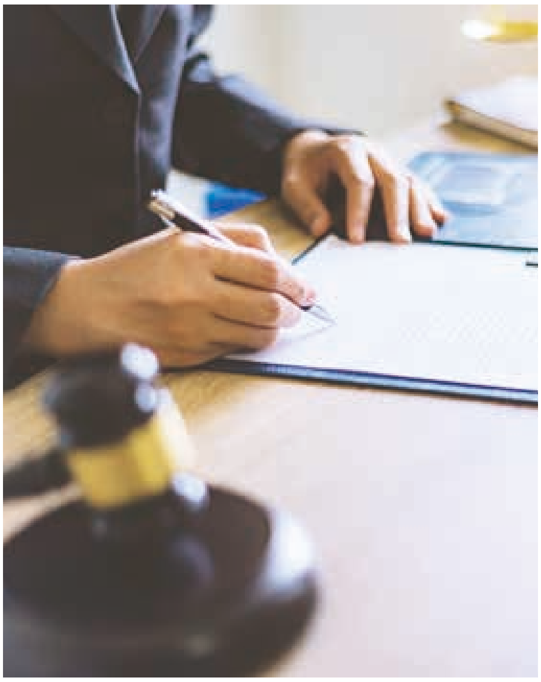
Judicial System Support Project

NDB is contributing towards Russia's development of a transparent and effective judicial system. Russia has managed to maintain its overall competitiveness, with its economy ranked 43rd in the World Economic Forum's Global Competitiveness Report 2016-2017. However, the effectiveness of the judicial system is considered an important factor influencing investment decisions and overall investor confidence in a country's business environment. Russia's judicial system continues to face challenges. In this context, the Russian government has formulated a strategy for the development of the judicial system by 2020.

NDB is providing a loan of USD 460 million to support Russia's judicial development strategy. With a total cost of USD 601 million, the project's main focus is institutional development and aims to improve the efficiency, effectiveness and transparency of the Russian judicial system. Funds will be directed towards upgrading physical infrastructure such as building new administrative buildings and integrating information and communication technology systems to implement a new electronic case management system.

PROJECT LOAN VALUE

USD 460 MILLION



The Year Ahead

PROJECTED LOANS TO BE APPROVED IN 2018

USD 4 BILLION

Speed, agility and innovative thinking are the prerequisites needed to succeed and meet aspirations in a world where rapid change is a given. New opportunities will arise with the emergence of new production systems, employment patterns, urbanisation models and environmental demands. These challenges and opportunities will in turn continue to increase the demand for the development of new infrastructure, new thinking, new institutional structures, new products, new services and new collaborations among multilateral institutions. As a new player in the multilateral development banking sector, NDB will continue to contribute to developing solutions for a sustainable future by exploring both new development modalities and new approaches to financing infrastructure projects. NDB's continued collaboration with partners including multilateral development banks, national development banks and international organisations, among others, will be an integral part of its approach.

Project Pipeline

NDB aims to approve loans of more than USD 4 billion in 2018. NDB also intends to extend development benefits across member countries by sharing the valuable lessons it has learned. As foreseen in NDB's General Strategy, it is doing more than funding a portion of the gap in global infrastructure development – NDB is also enabling and facilitating technical expertise and encouraging engagement and cooperation among developing countries and emerging economies. To meet its twin goals of enhancing people's standards of living and building a sustainable future, NDB will seek to help those countries in need achieve progress in their development.

Risk Management

To support the expansion of NDB's activities to non-sovereign lending operations and enhance the capability of NDB to price and evaluate risks, NDB will apply risk management tools and analytical capabilities that are being developed with leading international service providers and partners. In 2018, these pricing, monitoring and analytical tools will be integrated and aligned with the implementation of a treasury management platform and system.

As NDB continues to develop, its risk management standards will be enhanced and it will seek to continually improve and strengthen its capability and capacity to achieve operational excellence.

Launch of a Regional Office in Brazil

NDB will open its second regional office in Brazil in 2018. NDB recognises that each country is unique and a local presence can enable NDB to develop a deeper understanding of the opportunities, needs and nuances of each member country so that it is able to fully execute its mandate. Thus, the establishment of a lean, focused team in Brazil will be followed by the opening of offices in other founding member countries as needed.

NDB's Future Headquarters

Construction of NDB's new headquarters in Shanghai commenced on 2 September 2017 with a ground-breaking ceremony. It is expected to take four years to complete. As a landmark building along the Huangpu River in Shanghai, the building is designed to be environmentally friendly, highly functional and cost-efficient to maintain. Working in close partnership with the Shanghai Municipal Government, the building is designed to achieve China's three star[6] green building rating and an international LEED[7] platinum rating.

[6] The three star system is the Chinese green building standard developed by the Ministry of Housing and Urban-Rural Development of the People's Republic of China, in order to promote and regulate green buildings in China.

[7] Leadership in Energy and Environmental Design (LEED) is the most widely used green building rating system in the world. Available for virtually all buildings including community and home project types, LEED provides a framework to create healthy, highly efficient and cost-saving green buildings.

Annual Financial Statements
for the Year Ended 31 December 2017

Responsibility for external financial reporting

Senior Management's Responsibility

Senior management of NDB is responsible for the preparation, integrity and fair presentation of the annual financial statements and all other information presented in the 2017 Annual Report. The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and in accordance with the accounting policies of NDB.

The financial statements have been audited by independent external auditors. Senior management believes that all representations made to the independent external auditors during their audit were valid and appropriate.

Senior management is responsible for establishing and maintaining effective internal controls over external financial reporting, in conformity with IFRS.

The ARC Committee assists the Board in its responsibility to ensure the soundness of the Bank's accounting policies, guidelines, practices and effective implementation of internal controls. The external auditor and the internal auditor meet regularly with the ARC Committee, with and without other members of management being present, to discuss the adequacy of internal controls over financial reporting and any other matters which they believe should be brought to the attention of the ARC Committee.

The external auditors have provided an audit opinion on the fair presentation of the annual financial statements presented within this Annual Report set out on page 56 and 57.

INDEPENDENT AUDITOR'S REPORT	**56 - 57**
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	**58**
STATEMENT OF FINANCIAL POSITION	**59**
STATEMENT OF CHANGES IN EQUITY	**60**
STATEMENT OF CASH FLOWS	**61**
NOTES TO THE ANNUAL FINANCIAL STATEMENTS	**62 - 96**

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 then 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 IFRS, 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 scepticism throughout the audit. We also:

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

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**

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 58 to 96 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**

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**

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 mortisation	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 and 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**

Notes to the Annual Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

The Bank was established on the signing of the Articles of Agreement (AoA) on the New Development Bank 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 and founding members. The AoA 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 Centre (ARC), in Johannesburg, which is the first regional office of the Bank.

According to the AoA, 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, totalling USD 10 billion, of which 20,000 shares correspond to paid-in capital and 80,000 shares correspond to callable shares. The contribution of the amount initially subscribed by each founding member, to the paid-in capital stock of the Bank, shall be made in dollars in seven instalments, pursuant to the AoA.

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) staff 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 (ASs), 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.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

Amendments to IAS 7 Statement of Cash Flows (Disclosure Initiative) - continued

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.

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]

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 from 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 when applying 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.

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

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 AoA of 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/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 and whether 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.

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 on property and equipment is included in the cost of 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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Property and equipment - continued

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 of the asset. 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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Impairment of tangible and intangible assets other than financial assets - continued

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.

Classification of financial instruments

<u>*Financial assets*</u>

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/or
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

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 unfavourable 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

- 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION - continued

Financial instruments - continued

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.

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 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 from 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 AoA, 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 34 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 immune from all taxation, restrictions and customs duties for the transfers, operations and transactions it carries out pursuant to the AoA 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.

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.

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

Valuation of derivative contracts and bond designated as fair value through profit or loss - continued

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 and 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 AoA 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.

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.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

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.

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

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

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; and/or
- 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; and
- 12 month ECL= PD X LGD X EAD.

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; and/or
- Bankruptcy, liquidation or the appointment of a receiver or any similar official.

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

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 loan agreements and as at 31 December 2017. There has been no significant increase in credit risk up to 31 December 2017.

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

5. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

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 receivables relates to capital contribution 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 into 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; and

(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**

[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 renewed it, accordingly the amount has been excluded from cash equivalent.

5. FINANCIAL RISK MANAGEMENT - continued

Market risk

Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change, which results in profits 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.

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.

5. FINANCIAL RISK MANAGEMENT - continued

Interest rate risk - continued

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 USD'000	**2016 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	
	2017 USD'000	**2016 USD'000**
10% Increase	46	16
10% Decrease	(46)	(16)

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, 30% 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 are hit, contingency actions are triggered to bring the capital adequacy level to a safe range.

5. FINANCIAL RISK MANAGEMENT - continued

Capital management - continued

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 instalments.

According to Article 7d of the AoA, 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 AoA.

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.

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.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES - continued

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.

As at 31 December 2017	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
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**

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 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.

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 AoA, 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 December 2016 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 AoA (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 right to receive the initial subscribed paid-in capital of 100,000 shares, which total USD 10 billion upon the effective date of the AoA. 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 instalments. The first instalment of paid-in capital shall be paid by each member within 6 months of the AoA coming in force and the second instalment shall become due 18 months from the date the AoA came into force. The remaining 4 instalments shall each become due successively one year from the date on which the preceding instalment becomes due.

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

Note 3: The discounting method is applied to derive the interest to be unwound over the instalment period. The balance includes an initial discount of USD 622,285 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 instalments of paid-in capital receivables. The total paid-in capital receivables that will become due over one year amounts 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 USD'000	As at 31 December 2016 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 USD'000	As at 31 December 2016 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 with a total notional amount 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.

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 the bond, in the 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 AoA, is set out in the following table. There is no amendment to the terms of subscription payment in the AoA 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 AoA.

	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[3] 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[3] 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**

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

[3] Pursuant to Article 9 and attachment 2 of the AoA each founding members' paid-in capital stock shall be received in 7 instalments.

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 between 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.

			Non-cash movements		
	As at 31 December 2016 USD'000	Cash inflows USD'000	Unwinding of interest USD'000	Impact of early payment USD'000	As at 31 December 2017 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**

			Non-cash movements		
	As at 31 December 2016 USD'000	Cash outflows[4] USD'000	Interest accrued USD'000	Fair value changes USD'000	As at 31 December 2017 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**

[4] 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
Letter 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.

The name and relationship with founding member governments are disclosed below. On 31 December 2017 and 2016, no transactions, individually or collectively with governments 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

26. RELATED PARTY DISCLOSURE - continued

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 Sarquis	Brazil	Vice President; Chief Risk Officer
Paulo Nogueira Batista Jr.[5]	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

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

	For the year ended 31 December 2017 USD'000	For the period from 3 July 2015 to 31 December 2016 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**

[5] The employment contract of Paulo Nogueira Batista Jr., Vice President 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 and Chief Risk Officer with effect from 14 December 2017.

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

Consistent with Article 18 (c) of the AoA, the ordinary capital resources and the 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. The PPF will be open to contributions from all its member countries. Non-member countries and international organisations/funds may also contribute to the PPF with the Board of Director's approval authorised by the Board of Governors.

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

List of Acronyms and Definitions

AoA	Articles of Agreement
ADB	Asian Development Bank
AI	Artificial Intelligence
AIIB	Asian Infrastructure Investment Bank
ARC	Africa Regional Centre
ARC Committee	Audit, Risk & Compliance Committee
BNDES	Banco Nacional de Desenvolvimento Econômico e Social
BRICS	Brazil, Russia, India, China and South Africa
CIC	Credit Investment Committee
CMF	Capital Management Framework
CRA	Contingent Reserve Arrangement
CSO	Civil Society Organisation
EAD	Exposure at Default
ECL	Expected Credit Losses
FDI	Foreign Direct Investment
FVTOCI	Fair Value through other Comprehensive Income
FVTPL	Fair Value through Profit and Loss
GDP	Gross Domestic Product
G20	Informal group of 19 countries and the European Union, with representatives of the International Monetary Fund and the World Bank

IASB	International Accounting Standards Board
IAS	International Accounting Standards
IBRD	International Bank for Reconstruction and Development
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	International Standards on Auditing
JSSP	Judicial System Support Project
LEED	Leadership in Energy and Environmental Design
LGD	Loss Given Default
NDB	New Development Bank
NII	Net Interest Income
NPV	Net Present Value
PD	Probability of Default
PPF	Project Preparation Fund
RMB	Renminbi
SPPI	Solely Payments of Principal and Interest
UN	United Nations
USD	United States Dollar

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