

Appendix I

New Development Bank's 2016 Green Financial Bond Duration Assurance

Description of the use of proceeds (Reporting Period: 1 January 2017 – 18 July 2018)

In accordance with *The Announcement on the Issuance of Green Financial Bonds in the National Inter-bank Bond Market* (Letter [2015]No.39), *Measures for the Issuance and Management of Financial Bonds in the National Inter-bank Bond Market* (Letter [2015]No.1) published by the People's Bank of China, and the *Notice of the People's Bank of China on Matters Related to Strengthening the Supervision and Management of Green Financial Bonds* (Letter [2018]No.29), as well as the "*Green Financial Bonds Assessment Certification Act Guidelines (Interim Measures)*" published by the People's Bank of China and China Securities Regulatory Commission, the New Development Bank (hereinafter referred to as "the Bank" or "NDB") issued its 2016 Series-1 Green Financial Bonds (hereinafter referred to as "the Bond") with a total size of RMB 3 billion in 2016. The Bank shall disclose the use of proceeds of the Bond and the environmental benefits of green projects annually after the duration comes to a whole year. The use of proceeds raised by our green financial bonds during the reporting period (1 January 2017 to 18 July 2018) is reported as follows:

1. Basic Information

1.1 The overview of use of proceeds raised from green financial bonds during the reporting period

During the reporting period, the Bank financed 4 green projects in total. As of 18 July 2018, the accumulated investment amounts was RMB1.461 billion, which were all directed into the clean energy projects in line with *the Announcement on the Issuance of Green Financial Bonds in the National Inter-bank Bond Market* (Letter [2015] No.39,) and its annex, *Green Bonds Endorsed Project Catalogue* (2015) and the requirements of the *Green Bonds Principles* (2018) published by the International Capital Market Association (ICMA).

1.2 Brief Introduction of Green Financial Bonds Issuance

With the approval of People's Bank of China (Letter [2016]No.113), the New Development Bank issued its 2016 Series-1 Green Financial Bond in the amount of RMB3.0 billion in China Inter-Bank Bond Market on 18 July 2016. The Bond carried a fixed interest rate of 3.07% and has a tenor of 5 years. All proceeds raised from the green bonds are earmarked to the green projects in accordance with the 39th Announcement of People's Bank of China (2015) and its annex, *Green Bonds Endorsed Project Catalogue* (2015) and the requirements of the *Green Bonds Principles* (2018) published by the International Capital Market Association (ICMA).

2. Management of the proceeds of the Bond

2.1 Developing the management framework of the proceeds

In order to standardize the management of the proceeds, to protect the interests of investors, to ensure devoted for supporting the green sectors and to promote the healthy development of green credit business, the Bank has developed the *New Development Bank Green Financial Bonds Internal Guidelines* and *Treasury Operational Guideline on Funding Activities*, so that the defined criteria of

green projects and the project selection process have been standardized, the management procedure thus has been enhanced. Under abovementioned guidelines, the Bank adopts special ledger approaches to manage the proceeds, to track and monitor the collection, disbursement and collection of the Bond proceeds to the account in accordance with the relevant requirements from the 39th Announcement of the People's Bank of China.

2.2. Project Evaluation and Selection

The procedures cover six stages:

Stage 1: Project Identification

Projects are identified by the Operation divisions in the course of preparation of the country project pipeline which is used to implement the Bank's mandate and general strategy approved by the Board of Governors.

Stage 2: Project Classification

The Operation Divisions are responsible for project initial classification based on its sector and thematic category, among other characteristics, and may consult with other departments, such as Treasury and Portfolio Management Division.

Stage 3: Project Appraisal

The Operation Divisions appraise the viability of the project after adequate feasibility analysis, such as the impact on development objectives, strategic relevance, and environmental and social implications.

Stage 4: Project Selection and Screening

Projects, to which the proceeds from green finance instrument will be used, are proposed by the Operation divisions to treasury and Portfolio Management Division and are screened by the appointed independent third-party verification agency to conform their conformity in accordance with green projects should be categorized and kept consistent with the People's Bank announcement 39th, *Green Bond Endorsed Project Catalogue (2015)*, and the *Green Bond Principles*.

Stage 5: Project Approval

The project shall be approved by the Bank's Credit and Investment Committee and the Board of Directors.

Stage 6: Project Implementation and Supervision

Operations Division shall be responsible for project implementation and supervision.

2.3 The selection criteria of green projects

The Bank is committed to raise funds in accordance with People's Bank of China Announcement No. 39 [2015] *The Announcement on the Issuance of Green Financial Bonds in the National Inter-bank Bond Market*, and its annex, *Green Bonds Endorsed Project Catalogue (2015)* as well as the *Green Bonds Principles (2018)* published by the International Capital Markets Association.

2.4 The standard of finance green projects

The Bank aims to strengthen the green financial development mechanism to optimize the green financial services and promote the development of green finance. According to the *Notes on the Prospectus*, the Bank has reached an agreement on projects such as renewable energy development in the BRICS countries, such as China. The selected projects are implemented in accordance with *Green Bonds Endorsed Project Catalogue (2015)* and *Green Bonds Principles (2018)*. The Bank will continue to select green projects and finance green and sustainable development projects.

2.5 Management of the proceeds

The proceeds raised in this issuance will be used to finance eligible green projects with sustainable environmental benefits.

In the aspect of proceeds management, the Bank has developed a plan for project selection and screening procedure and promote the green credit loan step by step. Before granting the loan, the Bank will conduct green project assessment, selection and review in accordance with the requirements from *Green Bond Principles (2018)*, *The Announcement on the Issuance of Green Financial Bonds in the National Inter-bank Bond Market (Letter [2015] No.39)*, *Green Bond Endorsed Project Catalogue (2015)*, and ensure that the chosen green project to be awarded is consistent with the regulatory requirements and standards.

The allocated proceeds for green projects will be managed through special ledger approach to track and control the collection, disbursement and collection of the proceeds to the account. Unallocated proceeds will be tracked and monitored by the different type of investment, investment amount, duration and annual return.

The Bank's internal divisions shall ensure all unallocated funds will not finance to greenhouse gas emissions-intensive projects, high-pollution projects, energy-intensive projects, or the projects prohibited under national applicable regulations.

2.6 The Third Party Assessment of Accreditation

Prior to the issuance of the Bond, the Bank engaged with the Ernst & Young Hua Ming LLP ("EY") to conduct the pre-assurance report on the use and management of the Bond, project evaluation and screening, information disclosure and reporting according to *The Announcement on the Issuance of Green Financial Bonds in the National Inter-bank Bond Market (Letter [2015] No.39)*, and its Annex *Green Bond Endorsed Project Catalogue (2015)* and *Green Bond Principles (2018)*. No discrepancy was found.

During the duration of the Bond, the Bank will continually engage with Ernst & Young Hua Ming LLP ("EY") to issue post-assurance report on the use of proceeds in the previous year, and to conduct follow-up environmental assessment and performance valuation for the green projects supported by green financial bonds.

3. Use of Proceeds

3.1 The Actual Allocation of the Proceeds

By 18 July 2018, NDB financed 4 green projects, with total amount of RMB1.461 billion. Unallocated proceeds of green financial bonds are RMB1.539 billion. All disbursed proceeds are injected into the clean energy category.

Table 2: Green projects (Category)

Category (Level one)	Amount (RMB billion)	Number of projects
Clean energy	1.461	4
Total	1.461	4

3.2 Unallocated Proceeds and Next Steps

By 18 July 2018, unallocated proceeds is RMB1.539 billion, which will continuously be invested in highly liquid assets with stronger ratings. According to *NDB Green Financial bonds Internal Guidelines*, unallocated proceeds shall generate financial income. NDB will ensure such proceeds can be timely and rapidly used to support the projects in case of need.

NDB will focus on effective use of unallocated proceeds via injection to identified green projects, disburse unallocated proceeds as soon as possible. NDB will continue support green projects such as environmental protection, energy conservation and clean energy. The green project will cover the *Green Bonds Endorsed Project Catalogue* (2015) and the *Green Bond Principles* (2018). The Bank will play an important role in promoting the mitigation of climate change and the sustainable development of environment and society.

4. Green Projects Financed by the Bank and Environmental Effect

4.1 Overall Environmental Effect

The proceeds have been used to finance 4 projects with several of them still under construction, the environmental benefits are estimated as follows: the total installed capacity of 395.8MW, the power generation from clean energy amounts to 969 million kWh, the reduction of carbon emissions reaches at 973,960 tons, the reduction of SO₂ reaches at 7,559 tons, the avoidance of flue gas of 25,409 tons, saving the equivalent of coal consumption of 309,500tons, the decrease of NO_x emissions of 3,730 tons, the savings of water consumption of 2,420,000 tons and the reduction of lime-ash by 101,000 tons.

4.2 Green Projects Financed by the Bank

Project 1: Distributed Solar PV

The project is expected to involve installation of 100 MW roof-top solar photovoltaic power capacity. The project would be divided into a number of smaller sub-projects that would be sequentially implemented over a period of 3 years. Average annual power generation over 20 years is estimated at 96 million kWh of electricity with effective generation hours amounted to 1,155 hrs/year. This project is estimated to reduce carbon dioxide emissions by approximately 88,360 tons per year and NO_x emissions by 1,330 tons per year and will reduce the emission of flue gas by 24,109 tons per year and save 32,000 tons equivalent of coal consumption per year.

Project 2: Offshore wind farm

The project is being developed by Fujian Investment and Development Group Co., Ltd. (FIDG), a provincial state-owned enterprise specializing in infrastructure development. This project was approved in November 2016 will install 246MW offshore wind power capacity and estimated to be completed in 36 months. The project is expected to generate 873 million kWh of electricity in the first full year of operations with the entire capacity installed. It is estimated to operate over 20 years. This project will have a positive impact with avoid 836,800 tons of carbon emissions per year. It is further estimated that the project will avoid emissions of 2,400 tons of NO_x, 4,900 tons of SO₂, with the avoidance of 1,300 tons of flue gas, the reduction of 101,000 tons of lime-ash, save 277,500 tons equivalent of coal consumption and savings of water consumption of 2,420,000 tons per year.

Project 3: Financing of Renewable Energy Projects and Associated Transmission

NDB will provide a loan of USD300 million to BNDES. BNDES would use the amount on-lend to the identified projects, further according to the project document, BNDES would be responsible for financing from its other sources at least the same amount as NDB's exposure for a project. The proceeds of the loans were used to finance three major renewable energy projects in Brazil. These projects would reduce reliance on hydel, increase the country's resilience in energy supply and contribute to the development of clean energy technology.

Project 4: Loans for Nord-Hydro Project

NDB will support Nord-Hydro through providing loans to Eurasian Development Bank (EDB) and International Investment Bank (IIB). The implementing entity for this project is Nord Hydro Bely Porog (Nord Hydro). Nord Hydro is held by Nord Hydro and Far Eastern Construction Company LLC. This project includes a small dam and two hydroelectric generation plants with a total installed capacity of 49.8MW and a 220 kV power transmission line (10km) in the region of Karelia, North-Western region of Russia to evacuate electricity through the grid. The proposed hydro power generation will avoid 48,800 tons of carbon dioxide emissions per year and contribute an additional 4.5% to the installed capacity in Karelia.

5. Information Disclosure and Implementation

The Bank discloses information on the use of the Bond proceeds required by People's Bank of China Announcement No. 39 [2015] *The Announcement on the Issuance of Green Financial Bonds in the National Inter-bank Bond Market, Interim Measures for the issuance and management of foreign institutional bonds in the nationwide issued by the People's Bank of China and the Ministry of Finance* (Letter [2018] No.16).

Prior to the bond issuance, the Bank disclosed *Prospectus of Green Financial Bonds*, which provides information on the allocation of the proceeds and the environmental impacts of the eligible projects.

During the duration of the Bond, the Bank discloses the use of proceeds on a quarterly and annual basis. By 18 July 2018, the bank had disclosed the information of green financial bonds in accordance with the relevant provisions and the prospectus. The relevant documents and publication date have been disclosed as follows:

- I. *Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (The third quarter of 2016), issued on 1 November 2016*
- II. *Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (The fourth quarter of 2016), issued on 9 January 2017*

- III. *Special Audit Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (2016), issued on 17 May 2017*
- IV. *Annual Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (2016), issued on 17 May 2017*
- V. *Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (The first quarter of 2017), issued on 19 May 2017*
- VI. *Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (The second quarter of 2017), issued on 17 July 2017*
- VII. *Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (The third quarter of 2017), issued on 30 September 2017*
- VIII. *Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (The fourth quarter of 2017), issued on 19 January 2018*
- IX. *Special Audit Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (2017), issued on 28 April 2018*
- X. *Annual Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (2017), issued on 28 April 2018*
- XI. *Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (The first quarter of 2018), issued on 28 April 2018*
- XII. *Report on the Use of Proceeds of NDB's 2016 Green Financial Bond (The second quarter of 2018), issued on 18 July 2018*

New Development Bank

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