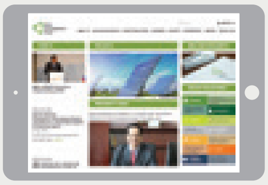
New Development Bank

Annual Report 2018

INVESTING FOR IMPACT



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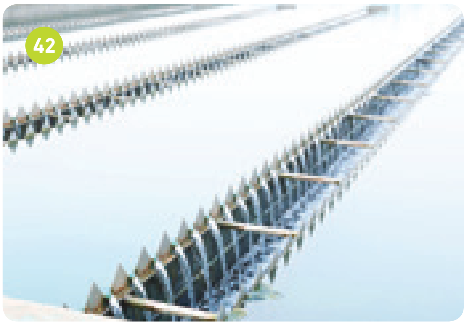
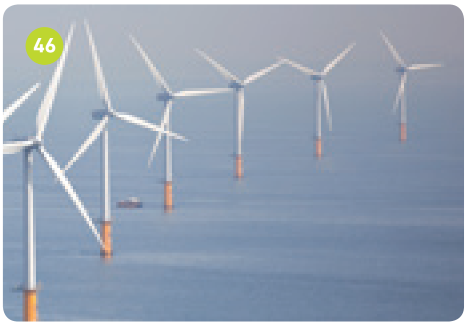




Read about how NDB is generating positive social, environmental and economic benefits for the citizens of our member countries.

Contents

Investing for impact

This 2018 Annual Report sets out the growth the New Development Bank (the Bank or NDB) has witnessed in delivering on its core mandate of mobilising resources for infrastructure and sustainable development. The year 2018 has also been a year where impact investing has gathered global momentum. It is within this context that NDB has embraced this concept to invest in a way that brings a range of positive and broad-based benefits to its member countries.

Message from the President

MR. K.V. KAMATH

As the New Development Bank enters the fourth year of its operations, it is indeed a pleasure to share with our stakeholders our performance in 2018 as well as some thoughts about the evolution of the Bank going forward.

Last year, we stated that sustainability remains the bedrock of our mission and that we would use 2018 as a springboard to build on our foundational focus on sustainable infrastructure financing. We committed ourselves to exploring new opportunities in sustainable development with our members. We foresaw the need to be imaginative and adaptable in our evolution. And we promised that as we moved forward, we would focus on "...leaner, lighter, cheaper technology and a significantly lower staff footprint".

I am happy to say that we have made good progress in all of these areas.

Sustainability continues to be at the core of everything we do. Our members reaffirmed in the Johannesburg Declaration, in July 2018, their commitment to fully implementing the 2030 Sustainable Development Goals (SDGs) to provide equitable, inclusive, open, innovation-driven and sustainable development in the economic, social and environmental dimensions, in a balanced and integrated manner, towards the ultimate goal of eradicating poverty by 2030. The Bank continues to support these commitments.

Building on a base of 13 loans for USD 3.4 billion at the end of 2017, the Bank approved 17 more loans totaling about USD 4.6 billion in 2018, bringing the total loan book of the Bank to 30 projects, aggregating about USD 8 billion. Of this, in response to the need for non-sovereign lending in our member countries, the Bank approved four non-sovereign loans aggregating USD 1 billion in three countries in 2018, taking its total non-sovereign portfolio to USD 1.4 billion. Our lending now covers key areas of operations including:

– transport (27%);
– clean energy (27%);
– irrigation, water management and sanitation (18%);
– urban development (14%);
– environmental efficiency (8%); and
– social infrastructure (6%).

We have also invested in building a strong pipeline of projects for 2019 across a broader range of sectors with more diversification across our members.

The Bank received a AA+ international credit rating during the year, thereby joining the group of highly rated multilateral

> Impact investing aims to generate positive social and environmental benefits alongside financial and economic returns.
>
> The Bank is well placed to embrace impact investing and contribute towards its standardisation and mainstreaming.

USD 4.6 bn

Approved loans in 2018

USD 1 bn

Aggregate of four non-sovereign loans in three countries in 2018

development banks (MDBs). This rating is a recognition of the well-struck balance between growth and prudence in the Bank's future plans and enables us to mobilise financing from global and domestic capital markets at competitive rates and pass on the benefits to our clients.

We remain lean, efficient, and fit-for-purpose in our staffing in all areas. We are rapidly progressing towards implementing a fully cloud-based IT environment in the Bank, with several systems already in place and more in the process of being implemented. The Africa Regional Centre in Johannesburg is fully operational and we plan to open offices in Brazil and Russia this year.

Ongoing guidance and support from the Bank's Governors and Directors and member country governments, for which we are deeply appreciative, has played a major role in our progress thus far. I also thank the Bank's staff, whose hard work has made our progress possible, for their commitment and dedication.

Our members' focus on sustainable development is built on the recognition that while their share of global GDP in purchasing power parity (PPP) terms increased from 27% to 33% in the 2010-18 period despite global and domestic challenges, concomitant pressures caused by growth on their natural resources and environment have also increased. Explicit acknowledgement of these problems is leading our members to invest both in sustainable infrastructure going forward as well as in undoing some of the damage that has come along with past rapid economic development. And the Bank is being called upon to assist.

We are responding. Since inception, the Bank has based its lending on a long-term, broad assessment of economic, environmental, social, and climate change impacts. The Bank's initial projects were all in the renewable energy sector. This was more than a symbolic gesture; it conveyed the message of our founders that we are committed to a better and sustainable future for our member countries. The Bank looks to expand on the "do-no-harm" approach to incorporate a more transformative approach towards development. We are building in measurement and monitoring of the development impact of our lending into our projects.

We would now like to take this a step further and embrace the concept of "impact investing" in our project portfolio. Impact investing aims to generate positive social and environmental benefits alongside financial and economic returns. It aims to assess all the returns associated with a project, taking into account positive and negative externalities in addition to the project's intrinsic returns. With its more holistic considerations

Message from the President

in investment decisions and primary attention to "net positive impacts", impact investing offers a hopeful alternative path to the traditional approach and its growth trajectory has already shown significant momentum, with the industry growing fivefold between 2013 and 2017. Through our investments, we would like to contribute to its further growth. Within the context of its mandate, the Bank is well placed to embrace impact investing and contribute towards its standardisation and mainstreaming. The Bank's current approach to its portfolio is largely in line with the practices of the impact investing community and we look forward to building on this.

Looking ahead, I am excited about developments in several areas that will influence our future work.

Last year, I had touched upon the possibilities of the Fourth Industrial Revolution and likely transformations that could be brought about by technology-led disruption. Some of these changes are already visible. Artificial Intelligence (AI) and machine learning are now a growing reality in our everyday lives and their spheres of influence are growing exponentially. 5G rollouts have already begun and, consequently, a ubiquitous Internet of Things is now a matter of when, not if. These technological developments are revolutionising finance, tele-medicine, education, and public services. Innovations to further green the global economy such as highly energy-efficient and driverless automobiles are now beginning to reach the mass market, even as the world grapples with the challenges of climate change. In the near future, is it conceivable that the auto-insurance industry, as we know it today, will cease to exist? Or that a significant fraction of healthcare is delivered remotely? Or that children will have near-universal access to high-quality internet-based education? I believe it is.

These changes have far-reaching consequences, and require a new way of thinking about the underlying infrastructure and our role in financing it. We need to take the opportunities presented by technological advances and make our infrastructure smarter, more sustainable, and climate resilient. We will actively explore avenues through which we can support our members in these areas and contribute to thought leadership on this issue.

As we increase focus on development impact as the cornerstone and key metric of our success, we will need to look differently at projects that we finance as well as develop a whole new set of skills in areas ranging from due diligence to project design to impact reporting. We will further strengthen these skills in our own staff and contribute to helping achieve scale through our investments.

The Bank will join the community of MDBs to help deliver on the billions-to-trillions agenda. We are well aware that even working together, MDBs can directly offer only a small part of the total resources required to achieve the SDGs that our members have signed on to. Crowding-in other investors, in particular the private sector, is critical if we are to make a significant contribution. To achieve this, designing new products that are appropriate for a broad spectrum of investors is essential. Also worth considering is the creation of robust secondary markets in our member countries, that will help meet the current demand for projects that suit investors' needs. MDBs could act as originators of projects, play their important role in de-risking such projects, and take these projects to private investors in the market, thereby enabling recycling of their scarce capital. The Bank has set itself up to do this and will work with partners to contribute to this process.

The Bank is of the view that making a consistent and determined contribution to societal well-being is a matter of existential importance. We are committed to doing so in our member countries. We are on an exciting journey to contribute to making the world a better place for future generations and we look forward to partnering with interested stakeholders in this journey.

Mr. K.V. Kamath
President of NDB

Overview

KEY INFORMATION ABOUT NDB AND THE BANK'S PERFORMANCE IN 2018.

A brief history of NDB and key milestones

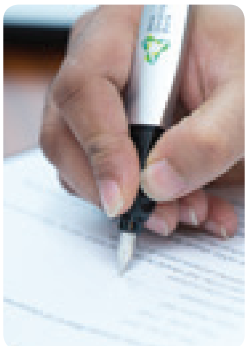
New Development Bank

MARCH 2012
At the New Delhi Summit, the BRICS leaders direct their finance ministers to examine the feasibility and viability of setting up a new development bank to support economic growth in the BRICS and other emerging economies and developing countries

2012

MARCH 2013
BRICS leaders agree to establish NDB at the Durban Summit

2013



JULY 2014
The Articles of Agreement (AoA or Agreement) are signed at the Fortaleza Summit

2014

JULY 2015
The AoA enter into force

JULY 2015
The inaugural meeting of the Board of Governors (BoG) is held in Moscow

JULY 2015
The inauguration ceremony for NDB is held in Shanghai

JULY 2015
NDB officially starts operations in Shanghai

SEPTEMBER 2015
First Memorandum of Understanding (MoU) is signed with Brazilian National Bank for Economic and Social Development (BNDES)

2015

FEBRUARY 2016
Headquarters agreement with China and MoU with the Shanghai Municipal People's Government are signed

APRIL 2016
First batch of projects, in the amount of USD 811 million is approved by the Board of Directors

APRIL 2016
First local currency project is approved to Lingang Distributed Solar Power in the amount of RMB 525 million

JULY 2016
AAA credit rating is received from China Chengxin International Credit Rating Co. Ltd and China Lianhe Credit Rating Co., Ltd

JULY 2016
First green bond is issued in the Chinese interbank bond market

2016

NDB's mandate

NDB is mandated to mobilise resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries. In order to deliver on its mandate, NDB seeks to establish a relationship of equality and mutual trust with its shareholders.

This principle pervades the Bank's policies and operations, gearing the Bank's focus towards supporting its member countries to achieve their development aspirations, especially those articulated in the UN's 2030 Agenda for Sustainable Development and the 2015 Paris Agreement on Climate Change.

The Bank also strives to bring a variety of positive externalities, such as enhancing productivity, contributing to the development of domestic capital markets and promoting overall trade and investment opportunities. As the operations of the Bank expand, they will also act as a counter-cyclical force in sustaining the funding of infrastructure and sustainable development investments, moderating the negative effects of economic cycles and growth volatility.

NDB seeks to establish a relationship of equality and mutual trust with its shareholders.

JANUARY 2017
The establishment of the Project Preparation Fund (PPF) is approved

APRIL 2017
The terms, conditions and procedures for the admission of new members is approved

JUNE 2017
General Strategy: 2017-2021 is approved

AUGUST 2017
The Africa Regional Centre (ARC) is officially opened

SEPTEMBER 2017
Ground breaking ceremony for the permanent headquarters in Shanghai is held

OCTOBER 2017
PPF Contribution Agreement is signed with China

2017

APRIL 2018
PPF Contribution Agreement is signed with India

JULY 2018
Agreement on the hosting of NDB's Americas Regional Office (ARO) in São Paulo and Brasília is signed

AUGUST 2018
AA+ credit rating is received from Fitch and Standard & Poor's (S&P) Global Ratings

DECEMBER 2018
30 projects approved by NDB totaling about USD 8 bn by the end of 2018

2018

NDB in 2018

The year 2018 marked the third consecutive successful year for NDB since its establishment. While continuously building its institutional capacity with a focus on quality and technical rigour, this year NDB approved 17 projects in all member countries, more than the total number of projects approved during the preceding two-and-a-half years. The Bank's overall portfolio expanded to 30 projects, valued at about USD 8 billion.

NDB's General Strategy: 2017-2021 places great emphasis on mobilising resources for infrastructure and sustainable development projects. To meet this demand from shareholders, the Bank is enhancing its development impact planning and operational approach. This will also enhance the Bank's contribution to members' development efforts in line with the principles embodied in the United Nations (UN) 2030 Agenda for Sustainable Development.

As a result, NDB is intensifying its focus on different areas of sustainable infrastructure development that maximise development impact in line with the SDGs. This approach has allowed the Bank to enlarge its investment beyond renewable energy to vital areas such as:

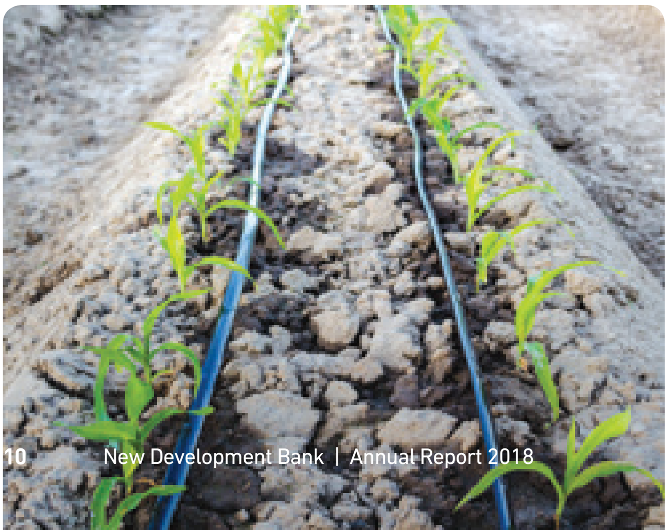
– ecosystem restoration,
– water supply, irrigation restructuring and
– energy conservation.

Throughout 2018, the Bank's portfolio has become increasingly diversified. The Board of Directors (BoD) approved four non-sovereign projects in South Africa, Russia and Brazil. The Bank has also started to develop policies and procedures to provide infrastructure guarantees and engage in equity investments.

Having received a AA+ rating from S&P and Fitch ratings agencies in August 2018, NDB will be able to diversify its sources of funding with access to the international bond market. Significant progress has also been made in funding in local currency. After successfully issuing its first onshore bond in China in 2016, NDB has been working to register local currency programmes with the aim of obtaining necessary approvals to become a qualified bond issuer in the currencies of all member countries[1].

Against the backdrop of rapid technology development, NDB continues to strengthen its internal systems and processes in accordance with global best practice. The Bank's IT infrastructure allows it to act efficiently and to manage the increasing complexity in its operations. In 2018, NDB implemented a treasury management system, SWIFT, risk management monitoring, compliance and internal audit systems. Quantitative and analytical capabilities continue to evolve with the implementation of loan pricing tools and business intelligence instruments for data-sharing and visual analytics.

During its relatively short period of operations, NDB has evolved from a concept into a solid, dynamic and reliable institution. The Bank's achievements thus far have been the culmination of a number of favourable factors, including the continuous support of its member countries, clear and decisive guidance from the Boards, conscientious efforts of Senior Management and commitment and hard work of all staff. The goal of NDB is to be a 21st century institution; one that acts through innovative thinking, products and processes, guided by the development commitments made by member countries.



17 projects

Approved in 2018

USD 8 bn

Overall value of the Bank's project portfolio (30 projects in total)

1 On January 9, 2019, the Bank registered a RMB 10 billion bond in the China interbank bond market and successfully placed RMB 3 billion on February 25, 2019 in this market.

Key events in 2018

PROGRESS UPDATE

The BoG received a progress update on the following:

– enhanced representation of staff from all member countries,

– progress in institutional development and operations, such as the ARC being fully operational and plans to open the ARO,

– construction of the new Shanghai headquarters building,

– new project approvals and

– the contributions received to date since the establishment of the PPF in January 2017.

The theme for the Third Annual Meeting was Innovative Approaches for Development Financing.

NDB THIRD ANNUAL MEETING

The Third Annual Meeting of the BoG was held in Shanghai, China on May 28, 2018, under the theme Innovative Approaches for Development Financing. The BoG elected the Governor from South Africa as Chairperson and the Governor from Brazil as Vice Chairperson for 2019.

The operational targets for 2019 were also presented to the BoG.

The BoG encouraged the Bank to deepen dialogues and strengthen support to enhance domestic resource mobilisation in member countries, using innovative approaches to further develop its financing and investment operations.

The BoG also elaborated on plans to support the expansion of NDB's business in line with its mandate and agreed on the importance of being part of redefining the future; not just in BRICS but all emerging economies and developing countries.

Three seminars held during the meeting included:

– Development Financing in a Changing Global Environment,
– Innovative Approaches for Mobilising Finance for Sustainable Infrastructure Development and
– Social Aspects of the Fourth Industrial Revolution and Digital Economy.

Official group photo:
NDB Third Annual Meeting, Shanghai.

Through its active participation in the BRICS Summit, the Bank reaffirmed its determination to expand its role as an innovative and reliable development partner to all BRICS countries in the year ahead, increasing its support to all member nations to achieve their development agendas.

NDB PARTICIPATION AT THE TENTH BRICS SUMMIT HELD IN SOUTH AFRICA

NDB showcased its growing support to fund infrastructure and sustainable development projects in the BRICS countries, during the Tenth BRICS Summit which took place in Johannesburg, South Africa from July 25-27, 2018. Over the course of the three-day summit, the Bank participated in a series of high-profile meetings and sessions with BRICS nations' leaders and the wider BRICS business community.

NDB president, Mr. K.V. Kamath and senior NDB officials met with South Africa's President, Mr. Cyril Ramaphosa, in Johannesburg to discuss the future development role of the Bank in South Africa, including the expansion of the project pipeline and the work of the ARC in Johannesburg.

Mr. K.V. Kamath, Mr. Aloysio Nunes Ferreira, the Minister of Foreign Affairs of Brazil and Mr. Eduardo Refinetti Guardia, the Minister of Finance of Brazil and Vice-Chairman of the Bank's Board of Governors, signed the agreement to host the ARO in São Paulo and Brasília.

Further to this, Mr. K.V. Kamath delivered updates to BRICS business leaders on key projects and other announcements, including the approval of two projects in China and South Africa. Through its active participation in the BRICS Summit, the Bank reaffirmed its determination to expand its role as an innovative and reliable development partner to all BRICS countries in the year ahead, increasing its support to all member nations to achieve their development agendas.

NDB President Mr. K.V. Kamath met South African President Mr. Cyril Ramaphosa during the 2018 BRICS Summit.

1. NDB President Mr. K. V. Kamath met Chinese Vice Premier Mr. Zheng Han in Beijing.

2. NDB President Mr. K. V. Kamath met Russian Federation Prime Minister Mr. Dmitry Medvedev in Shanghai.

SOLIDIFYING TIES WITH MEMBER COUNTRIES

A core value on which NDB was founded was to create relationships based on reciprocated respect and trust. Throughout the year, Mr. K.V. Kamath met with high-level officials to continue strengthening the Bank's relationships with its members.

On March 9, 2018, Mr. K.V. Kamath met the Prime Minister of India, Mr. Narendra Modi, in New Delhi. During the meeting, the progress of the Bank and the current status of different projects approved by the Bank in India was discussed. Mr. K.V. Kamath thanked the Prime Minister for all the support the Bank has received from the Government of India and committed that the Bank stands ready to support projects of about USD 1.5 billion annually in India in the coming years.

On November 5, 2018, Mr. K.V. Kamath had a meeting with Mr. Dmitry Medvedev, Prime Minister of the Russian Federation in Shanghai. The President and the Prime Minister discussed the Bank's support of the Russian government's developmental agenda and infrastructure programmes. In addition to this, plans to open a regional office in Russia in 2019 to strengthen the Bank's project pipeline was also discussed.

On November 13, 2018, Mr. K.V Kamath and the Senior Management team met Chinese Vice Premier, Mr. Zheng Han, in Beijing. Mr. K.V. Kamath briefed Mr. Han on NDB's progress in establishing itself as a trusted development partner and expressed the Bank's willingness to support the three city clusters surrounding Beijing, Shanghai and Shenzhen in their infrastructure investment.

SECOND ANNUAL CIVIL SOCIETY ORGANISATION MEETING

On November 22, 2018, the Bank held its second meeting with civil society organisations at NDB's headquarters in Shanghai.

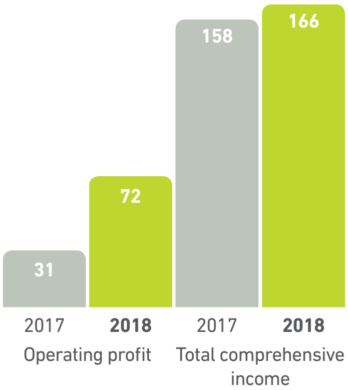
The meeting, which brought together international and national civil society organisations from BRICS countries, provided an opportunity for important discussions on topics related to NDB's operations and institutional development. The importance of the development impact of projects was a central theme.

The importance of the development impact of projects was a central theme.

NDB in numbers

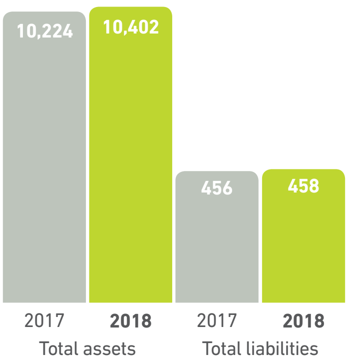
Financial Performance

USD m As at December 31



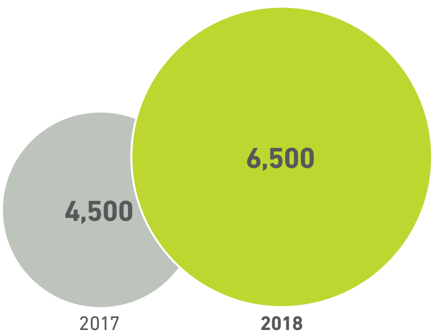
Funding

USD m As at December 31



Project Preparation Fund (PPF)

USD'000 As at December 31
Contributions received



Operations

USD m As at December 31	2018	2017
Approved loans	**8,078**	3,419
Cancelled loans	**250**[1]	–
Disbursed loans	**625**	24
Loans funded through green bond proceeds	**436**	12

Asset quality

As at December 31	2018	2017
Average rating of treasury liquid assets	**A+**	A+
Average maturity of treasury assets	**6 mths**	7 mths
Average rating of sovereign operations	**A-**	A-
Average rating of non-sovereign operations	**BBB-**	BB+
Average rating of total operations	**BBB+**	A-

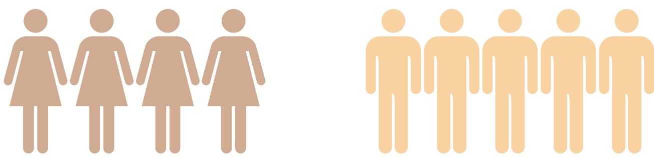
Liquidity

As at December 31	Metric	2018	2017
Overall liquidity ratio	%	**626**	1,148

Member contributions

USD m Financial Year ending	Cumulative paid-in capital received
December 31, 2016	2,200
December 31, 2017	3,800
December 31, 2018	**4,991**

Human Resources



56 females

As at December 2018
(2017: 43)

88 males

As at December 2018
(2017: 63)

1 Related to the USD 250 million loan to Canara Bank for its Renewable Energy Financing Scheme, approved in 2016 and cancelled in 2018.

Snapshot

EXPECTED DEVELOPMENT RESULTS IN SELECTED AREAS OF NDB'S OPERATION.

NDB collaborated with or participated in projects related to transport infrastructure, clean energy, urban development, irrigation, water resource management and sanitation, that are expected to result in:

Additional 150,000 hectares of land to be brought under irrigation

>3 million

people to benefit from improved access to safe systems of water supply

+1,000 km

of canal infrastructure to be built or upgraded

Over 1.5 million tons of CO_2 to be avoided per year

350 bridges

to be constructed or reconstructed

>80 km

of metro rail to be built

30 cities to benefit from sustainable urban development

>7,800 km

of roads to be built or upgraded

A new airport to be built with:

22 million

annual passenger through-put and annual freight through-put of 200,000 tons

One port to be developed and rehabilitated, increasing its handling capacity by 500,000 twenty-foot equivalent units (TEU)

+1,500 MW

of renewable energy capacity to be installed

Enhancing partnerships for stronger impact

Successful delivery of a sustainable development agenda requires active collaboration between institutions that share common principles and objectives. The drive to revitalise global partnerships is embodied in SDG 17 – a goal that recognises the importance of co-operation to mobilise and share knowledge, expertise, technology and financial resources, to support the achievement of the SDGs across the world. In the spirit of SDG 17, NDB is proactively working together with other institutions to support the development efforts of its member countries.

USD 380 m

Committed to co-finance and parallel finance infrastructure projects with partner institutions in 2018

28 MoUs

Signed in total

STRENGTHENING COLLABORATION WITH THE UN AND ITS SPECIALISED AGENCIES

NDB Granted United Nations General Assembly (UNGA) Observer Status

In December 2018, NDB was granted observer status at the UNGA, which will help establish a firm basis for active and fruitful co-operation with the UN and its specialised agencies. As an observer, NDB joins a range of other international organisations, including MDBs, working together with the UN system to promote sustainable development globally.

NDB Builds Stronger Partnership with Food and Agriculture Organization of the United Nations (FAO)

In October 2018, NDB and FAO discussed opportunities for joint initiatives in areas of common interest, including the promotion of rural development, water management and irrigation to support global growth and development. Throughout 2018, NDB and FAO fostered ever closer ties and developed plans for collaboration, beginning with activities to share technical knowledge on the topics of delivering development impact and helping countries achieve the SDGs.

BUILDING AND IMPLEMENTING PARTNERSHIPS

NDB continues to collaborate with MDBs, national financial institutions (NFIs), commercial banks, international organisations, academic institutions and think tanks across different functions to better deliver on its mandate to mobilise resources for infrastructure and sustainable development projects.

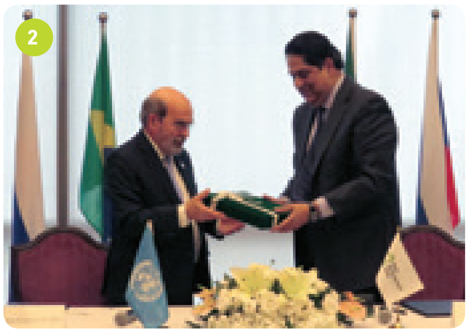
In its effort to maximise finance for development, NDB committed over USD 380 million in co-finance and parallel finance infrastructure projects with partner institutions. MoUs that NDB signs with partners lay the groundwork for such co-operation. In 2018, NDB signed four MoUs, bringing the total number to 28

Banco Santander (Brasil) S.A.

On January 10, 2018, the NDB and Banco Santander (Brasil) S.A. signed an MoU on strategic co-operation to promote collaboration and joint provision of financial services. The agreement, which promotes knowledge sharing and staff exchange initiatives, is the first formal partnership between NDB and a private bank in Brazil.

IDB and IDB Invest

The MoU signed with IDB and IDB Invest on April 19, 2018 establishes a framework for co-operation across various areas and services, including knowledge sharing, joint participation in sustainable infrastructure projects and support for the development of clean transportation and renewable energy.



1 & 2. NDB meeting with Food and Agriculture Organization of the United Nations.

The Development Bank of Southern Africa (DBSA)

The MoU signed with DBSA on May 28, 2018 promotes general co-operation between the two institutions and fosters opportunities for operational partnerships, treasury management and exchange of knowledge and expertise.

The State Bank of India

The MoU signed with the State Bank of India on May 28, 2018 supports knowledge exchanges and collaboration in loan management services, settlement agency business, cash management, personal finance and other technical areas.

ADHERING TO AGREEMENTS AND JOINT DECLARATIONS WITH DEVELOPMENT PARTNERS

In March 2018, the Bank and the International Solar Alliance (ISA) signed a Joint Declaration for the Promotion of Solar Energy Globally. The two institutions agreed to consider a roadmap for the mobilisation of financing to promote solar energy in countries of common interest and to explore mechanisms for supporting solar energy development.

In April 2018, the NDB and the International Finance Corporation (IFC) signed a Master Cooperation Agreement (MCA). The MCA streamlines the work between NDB and IFC to co-finance projects. It also standardises the procedures for co-financing through syndicated parallel loans and provides documentation templates.

In December 2018, NDB issued a joint declaration with other MDBs which sets up a framework for aligning their activities with the goals of the Paris Agreement, reinforcing the Bank's commitment to combat climate change.

Following the Global Infrastructure Forum 2018 (GI Forum) in October 2018, the NDB endorsed the MDBs' "Outcome Statement", which also reaffirms the institution's pledge to support resilient, sustainable infrastructure development.

NDB is proactively working together with other institutions to support the development efforts of its member countries.

ENHANCING ENGAGEMENT WITH INSTITUTIONS IN MEMBER COUNTRIES

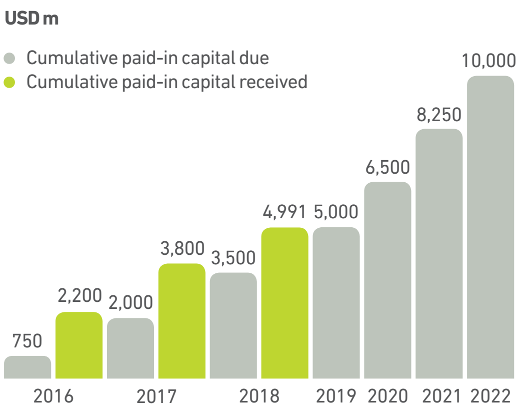
NDB actively engaged in BRICS forums throughout 2018. In March 2018, the Bank's Senior Management participated in the 2018 mid-term meeting of the BRICS Business Council in Shanghai to discuss joint initiatives. In July 2018, NDB took part in the annual meeting of the BRICS Business Council and the BRICS Business Forum in Johannesburg. To enhance knowledge sharing, the Bank engaged with counterparts from its member countries at the BRICS Think Tank Symposium in Guangzhou in April 2018, the BRICS Academic Forum in May 2018 and the Think Tank International Conference in Shanghai in June 2018.

Membership and capital structure

Member contributions schedule

USD m	Due date	Paid-in capital due from each member	Cumulative paid-in capital due
Instalment			
1	January 3, 2016	150	750
2	January 3, 2017	250	2,000
3	January 3, 2018	300	3,500
4	January 3, 2019	300	5,000
5	January 3, 2020	300	6,500
6	January 3, 2021	350	8,250
7	January 3, 2022	350	10,000

Member contributions schedule



The timely receipt of capital contributions demonstrates the commitment and support NDB receives from its members.

NDB currently has five member countries that are also the founding members, 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. In accordance with the AoA, the initial subscribed capital is USD 50 billion, with each of the five 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.

USD 10 billion of the subscribed capital of USD 50 billion is paid-in capital and USD 40 billion callable. The paid-in capital is receivable over seven annual instalments by each of the member countries. By December 31, 2018, USD 5 billion had been received in accordance with the payment schedule set out in the AoA. Additionally, USD 300 million was received from Russia related to its fifth instalment, which is not due until January 3, 2020. The timely receipt of capital contributions demonstrates the commitment and support NDB receives from its members.

NDB currently operates in all five member countries. Expansion of membership beyond the founding members is a strategic focus of the Bank designed to extend NDB's reach and development impact across the BRICS countries and other emerging markets and developing economies. Recognising this, in April 2017, the BoG approved the terms, conditions and procedures for the admission of new members.

Governance

THE GOVERNANCE STRUCTURE SUPPORTS NDB'S COMMITMENT TO OPERATING IN A PRUDENT MANNER AND PROVIDES OVERSIGHT, CONTROL AND GUIDANCE.

Board of Governors

NDB functions under the strategic guidance of the BoG, whilst operational oversight is provided by the BoD and is managed by the President and four Vice Presidents.

The BoG, BoD and Senior Management have extensive experience in dealing with and managing MDBs and are dedicated to building an organisation that holds itself to the highest standards of corporate governance and operational effectiveness. The BoG is the highest decision-making authority of the Bank. Each member country appoints one governor at ministerial level and one alternate governor. The Third Annual Meeting of the BoG was held in Shanghai on May 28, 2018.

Mr. Eduardo Refinetti Guardia[1]
Governor of NDB

Minister of Finance
Federative Republic of Brazil

Mr. Guardia was the Finance Minister in Brazil from April 2018 to December 2018. He served as the Executive Secretary of the Ministry of Finance from June 2016 to April 2018. Mr. Guardia held the positions of Chief Product Officer and Chief Financial, Corporate and Investor Relations Officer at BM&F BOVESPA. Mr. Guardia also held the positions of Secretary of the Treasury of the State of São Paulo, Secretary of the National Treasury, Deputy Secretary of Economic Policy of the Ministry of Finance and chaired the Board of Directors of Banco do Brasil.

Mr. Anton Siluanov
Governor of NDB

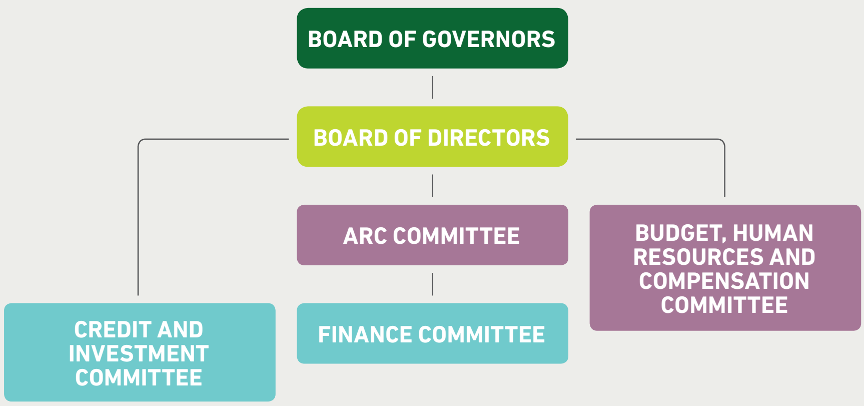
Minister of Finance
Russian Federation

Mr. Siluanov was appointed as Finance Minister in Russia from September 2011 to December 2011 and was reappointed in May 2012. Mr. Siluanov has a long history of working at the Russian Finance Ministry starting as an economist in August 1985 to becoming a member of the Board on March 22, 2001. From July 2003 to December 2011, Mr. Siluanov served in various positions including Deputy Finance Minister of the Russian Federation; Director of the Department of Intergovernmental Fiscal Relations at the Finance Ministry; and Acting Finance Minister of the Russian Federation.

KEY RESPONSIBILITIES INCLUDE, AMONGST OTHERS:

- The approval of the general strategy
- Expansion of membership
- Decision to increase or decrease the capital stock
- Authorising the conclusion of general agreements for co-operation with other international organisations
- Approving the annual accounts.

GOVERNANCE



Mr. Arun Jaitley
Governor of NDB

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

Mr. Jaitley has been Finance Minister and Minister of Corporate Affairs since May 2014. Before serving in this role, Mr. Jaitley was Union Minister of Defence. Mr. Jaitley has over 20 years of experience in various ministerial leadership roles. Mr. Jaitley is also India's Governor on the boards of governors of several MDBs, such as IBRD, IMF, ADB and AIIB. Mr. Jaitley is a lawyer and prominent leader of the Bharatiya Janata Party. In his prolific career as a lawyer, Mr. Jaitley was designated as Senior Advocate in 1989 and has made significant contributions in the areas of economic liberalisation and legal reforms.

Mr. Kun Liu[2]
Governor of NDB
Chairperson of BoG
until May 28, 2018

Minister of Finance
People's Republic of China

Mr. Liu has been Finance Minister of China since March 2018. From December 2016 to March 2018, Mr. Liu served as director of the Budgetary Affairs Commission of the National People's Congress. From May 2013 to December 2016, Mr. Liu served as Vice-Minister of Finance. From 1982 to July 2010, Mr. Liu held various posts in Guangdong Provincial Government, including vice-governor of Guangdong province from July 2010 to May 2013.

Mr. Tito Mboweni[3]
Governor of NDB, Chairperson
of BoG starting May 28, 2018[4]

Minister of Finance
Republic of South Africa

Mr. Mboweni has been Finance Minister of South Africa since October 2018 and he was the eighth Governor of the South African Reserve Bank from 1999 to 2009. Mr. Mboweni joined the Reserve Bank in July 1998 as Advisor to the Governor. Prior to this, Mr. Mboweni was Minister of Labour from May 1994 to July 1998 and before that, he was Deputy Head of the Department of Economic Policy in the African National Congress. Mr. Mboweni also represented the ANC on several domestic and international platforms.

1 Mr. Eduardo Refinetti Guardia was appointed Governor in April 2018 replacing Mr. Henrique de Campos Meirelles.
2 Mr. Kun Liu was appointed Governor in March 2018 replacing Mr. Jie Xiao.
3 Mr. Tito Mboweni replaced Mr. Nhlanhla Nene when Mr. Mboweni was appointed Governor of South Africa in November 2018. Mr. Nene was appointed Governor in March 2018 replacing Mr. Malusi Gigaba.
4 The Governor of South Africa was elected as the BoG chairperson on May 28, 2018 and will hold this office until April 2, 2019, the end of the Fourth Annual Meeting of the BoG.

Board of Directors

The BoD is responsible for the general operations of the Bank, including decisions on business and country strategies, loans, guarantees, equity investments, borrowing, operational policies and procedures, technical assistance as well as budget review and approval.

Each of the founding members appoints one Director and one alternate for a term of two years. As per NDB's AoA, Directors may be re-elected. The chairperson of the BoD is appointed by the Directors for a period of four years. The Chairperson of the BoD is the Director for Brazil, Mr. Marcello de Moura Estevão Filho.

NDB has a non-resident Board which, according to the Bank's AoA, meets at least quarterly. However, Directors may also hold as many virtual meetings as needed. This innovative format enables a swift, flexible and cost-effective decision-making process. In 2018, the BoD held five meetings. In order to ensure full transparency and effective governance, NDB's Corporate Secretary reports directly to the BoD.

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

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

Mr. Estevão was the Secretary for International Affairs at the Ministry of Finance in Brazil from December 2016 to December 2018. Previously, Mr. Estevão worked as an economist in the Federal Reserve Board between 1995 and 2000 in Washington. Mr. Estevão was also a chief economist in the Tudor Investment Corporation from 2013 to 2015 in London and Greenwich. From 2004 to 2007, Mr. Estevão worked for the IMF as an Economist and Senior Economist; Deputy Chief, North American Division (United States and Canada, 2008 to July 2011); Mission Chief to Barbados (2009 to 2010); Mission Chief to Nicaragua (July 2011 to April 2013); Deputy Chief, Regional Studies Division (June 2015 to October 2015) and Mission Chief to Peru (2015 to 2016).

Mr. Sergei Storchak
Director of NDB

Deputy Minister of Finance Russian Federation

Mr. Storchak has been the Deputy Finance Minister of the Russian Federation since November 2005. Mr. Storchak served in the Soviet Army from November 1972 to November 1974. Mr. Storchak held various positions at the Institute of World Economy and Foreign Affairs of the Academy of Sciences of the USSR from August 1981 to November 1988. From December 1988 to October 2005, Mr. Storchak served in various positions in government and other international organisations including the Second Secretary of the USSR Permanent Mission to the UN Office, Director of Division of the Foreign Credit and External Debt Department, Deputy Chairman of the Bank for Foreign Economic Affairs of the USSR and Director of the International Finance Relations, State Debt and State Financial Assets Department of the Finance Ministry of the Russian Federation.

KEY RESPONSIBILITIES

– General operations of the Bank
– Budget review and approval
– Project management
– Strategic direction to Senior Management to achieve the Bank's organisational objectives
– Oversees the development of its operations.

Mr. K. Rajaraman[1]
Director of NDB

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

Mr. Rajaraman was appointed as Additional Secretary, Investment & International Economic Relations in the Department of Economic Affairs, Ministry of Finance in September 2018. Mr. Rajaraman started his career as a Design Engineer in Bharat Heavy Electricals Limited, Trichy in 1986. After joining the Indian Administrative Service in 1989, Mr. Rajaraman has held administrative positions in the areas of Investment Promotion, Public Sector Undertakings, Industrial Infrastructure, Urban Transportation, VAT Administration. Mr. Rajaraman was previously the Managing Director of Chennai Metro Railways for approximately four years, during its construction phase, Commissioner for Commercial Taxes in State Government of Tamil Nadu and Joint Secretary Expenditure in Government of India.

Mr. Shixin Chen
Director of NDB

Director General of
the Ministry of Finance
People's Republic of China

Mr. Chen was appointed as the Director General of the Department of International Economic and Financial Cooperation, Ministry of Finance of China in August 2016. He served in various senior positions at the Ministry of Finance of China: Division Chief and Deputy Division Chief at Budget Department (until 2005); Deputy Director General of Tax Policy Department (2005 to 2007); and Deputy Director General of International Department (2007 to 2013). Mr. Chen was Executive Director for China at World Bank Group from 2013 to 2016, where he was a member of the 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 was appointed as the Director-General of the National Treasury on June 8, 2017. Mr. Mogajane joined National Treasury in 1999 as a Deputy Director and has worked in various areas including, amongst others, the Intergovernmental Relations, Provincial Budget Analysis and the International Economic Relations divisions. Between 2007 and 2010, Mr. Mogajane represented South Africa at the Executive Board of the World Bank as senior advisor for Africa Group 1 countries. Mr. Mogajane served as the Chief of Staff in the Ministry of Finance from 2010 to May 2014; acting Chief Operating Officer from May 2014 to May 2015 and Deputy Director-General responsible for the Public Finance Division at National Treasury from June 2015 to June 2017.

30 projects

Approved since NDB was established

1 Mr. K. Rajaraman was appointed as the Director for India in October 2018, replacing Mr. M. M. Kutty. Mr. Kutty was the Director for India from December 2017 to June 2018 replacing Mr. Dinesh Sharma.

Committees

The Bank's AoA state that the BoD shall appoint any committee it deems necessary for carrying out the general operations of the Bank. Consequently, the BoD has approved the constitution of four committees to assist it in accomplishing its oversight and decision-making responsibilities.

AUDIT, RISK AND COMPLIANCE COMMITTEE (ARC COMMITTEE)

CHAIRPERSON OF THE ARC COMMITTEE
Mr. Dondo Mogajane,
Director for South Africa

COMPRISES
All members of the BoD

MEETINGS PER YEAR
At least four times a year

KEY RESPONSIBILITIES
Assists the BoD to fulfil its corporate governance responsibilities including, among others, assessing the integrity of the financial statements and reporting procedures, reviewing reports from the external auditors, ensuring the existence of adequate and effective internal controls and approving the risk management framework;

The ARC Committee reviews the audited financial statements with Senior Management, including a discussion on the quality of the accounting principles as applied and significant judgements affecting the Bank's financial statements;

The independent auditors discuss with the ARC Committee their judgements of the quality of those principles as applied and judgements referred to above under the circumstances;

The members of the ARC Committee discuss amongst themselves, without Senior Management or the independent auditors being present, the information disclosed to the Committee as described above; and

The ARC Committee, in reliance on the review and discussions conducted with Senior Management and the independent auditors pursuant to the requirements above, provides its opinion as to whether the Bank's financial statements are fairly presented in conformity with International Financial Reporting Standards in all material respects.

In 2018, the ARC Committee held four meetings and has satisfied its responsibilities in compliance with its terms of reference.

BUDGET, HUMAN RESOURCES AND COMPENSATION COMMITTEE (BHRC COMMITTEE)

CHAIRPERSON OF THE BHRC COMMITTEE
Mr. Shixin Chen, Director for China

COMPRISES
All members of the BoD

MEETINGS PER YEAR
At least quarterly, or as needed

KEY RESPONSIBILITIES
The committee's purpose is to assess the approval of the budget and human resources and compensation-related activities.

In 2018, the BHRC Committee held four meetings and has satisfied its responsibilities in compliance with its terms of reference.

Meetings of the BOG, BOD and Board Committees in 2018

CREDIT AND INVESTMENT COMMITTEE (CIC)

CHAIRPERSON OF THE CIC
Mr. K.V. Kamath, President of NDB

COMPRISES
The President and the four Vice Presidents

MEETINGS PER YEAR
Monthly, or as needed

KEY RESPONSIBILITIES
The purpose is to assist the BoD in fulfilling its responsibilities regarding the credit activities of the Bank and to make appropriate project recommendations to the BoD.

In 2018, the CIC held eight meetings and has satisfied its responsibilities in compliance with its terms of reference.

FINANCE COMMITTEE

CHAIRPERSON OF THE FINANCE COMMITTEE
Mr. K.V. Kamath, President of NDB

COMPRISES
The President and the four Vice Presidents

MEETINGS PER YEAR
Monthly, or as needed

KEY RESPONSIBILITIES
The committee provides oversight responsibility on financial and risk-related matters pertaining to operations and treasury; and

The committee is responsible for the oversight of and recommendations to the BoD in the areas of financial policies and guidelines, financial operations including loan loss provisioning, asset and liability management and financial risk management.

In 2018, the Finance Committee held six meetings and has satisfied its responsibilities in compliance with its terms of reference.

MARCH 2018

MARCH 1
6th ARC Committee Meeting

MARCH 1
1st BHRC Committee Meeting

MARCH 2
13th BoD Meeting

MAY 2018

MAY 28
7th ARC Committee Meeting

MAY 28
2nd BHRC Committee Meeting

MAY 28
14th BoD Meeting

MAY 28
3rd Annual BoG Meeting

JULY 2018

JULY 20
15th BoD Meeting

SEPTEMBER 2018

SEPTEMBER 17
8th ARC Committee Meeting

SEPTEMBER 17
3rd BHRC Committee Meeting

SEPTEMBER 18
16th BoD Meeting

NOVEMBER 2018

NOVEMBER 15
9th ARC Committee Meeting

NOVEMBER 15
4th BHRC Committee Meeting

NOVEMBER 16
17th BoD Meeting

Senior Management

The Senior Management team is composed of the President and four Vice Presidents. In 2015, the BoG appointed Mr. K.V. Kamath from India as the first President of NDB. The President is also a member of the BoD, but has no voting rights except when the outcome of a vote taken by the BoD requires a deciding vote. The Vice Presidents, from each of the founding member countries, are appointed by the BoG, based on the recommendation of the President.

Mr. K.V. Kamath
President

Mr. Kamath has over 40 years' experience in the banking sector, including project finance, credit and venture capital. In 1988, Mr. Kamath joined the ADB in the private sector department. Before joining NDB, Mr. Kamath served as Managing Director and Chief Executive Officer and then as the non-executive Chairman of ICICI Bank. Mr. Kamath also served as a board member of Schlumberger Ltd and as Chairman of Infosys Ltd., India's largest software company.

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

Mr. Sarquis combines over 20 years of public sector experience. He has held several positions at the Ministry of External Relations in Brazil, including Head of International Economic Organisations and advisor on international finance, investment, trade and development. Before joining NDB, Mr. Sarquis served as Minister-Counsellor for the Organisation for Economic Co-operation and Development affairs at the Embassy in Paris and Deputy Chief of Mission at the Brazilian embassy in Tokyo. He received his MSc and PhD in Economics from the London School of Economics and has researched, published and taught in the areas of macro-economics and economic finance.

Mr. Vladimir Kazbekov
Vice President and Chief Administrative Officer

Mr. Kazbekov has over 20 years' experience in public sector and development finance. Before his appointment at NDB he served at Vnesheconombank - Russia's National Development Bank, as an executive and at the Russian Ministry of Foreign Affairs, as the Deputy Director of the Foreign Policy Department of the Presidential Executive Office of the Russian Federation.

Mr. Xian Zhu
Vice President and Chief Operations Officer

Mr. Zhu has over three decades of experience in senior management roles in the Chinese public sector. Before his appointment at NDB, Mr. Zhu served as Vice President and Chief Ethics Officer at the World Bank Group. Mr. Zhu has also held other positions in World Bank Group including Strategy and Operations Director for South Asia, Country Director for Bangladesh and Country Director for the Pacific Islands, Papua New Guinea and Timor-Leste.

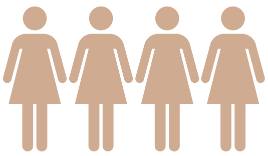
Mr. Leslie Maasdorp
Vice President and Chief Financial Officer

Mr. Maasdorp has over 25 years' experience in senior leadership roles in the private and public sectors in South Africa. In 1994, 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. Before joining NDB, Mr. Maasdorp served as President of Bank of America Merrill Lynch for Southern Africa and prior to that he served in a dual role as Vice Chairperson of Barclays Capital and ABSA Capital. He is a former International Adviser to Goldman Sachs.

Human Resources

144 staff

As at December 2018
(2017: 106 staff)



56 females

As at December 2018 (39%)
(2017: 43, 41%)

88 males

As at December 2018 (61%)
(2017: 63, 59%)

NDB is committed to recruiting, retaining and developing a diverse and high-performing team of professionals to contribute to infrastructure and sustainable development efforts in its member countries and, in the future, other emerging economies.

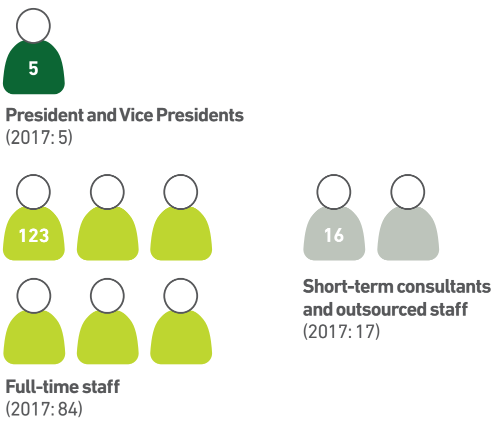
NDB searches the talent market within its member nations for the recruitment of its professional staff, who bring a wide array of perspectives and competencies to apply international best practice and collaborate effectively with clients and partners. NDB attracts motivated, flexible and high-performing professionals who are driven by the purpose of creating a greener, more sustainable future. NDB strives to ensure diversity of staff from member countries, including representation, gender, age and experience, as this is at the heart of how NDB defines and reinforces organisational and professional excellence.

Human capital is the Bank's most valuable resource. The Bank supports professional development through on-the-job skills transfer and technical training. Training opportunities extended to the staff have included operations workshops to strengthen capacity in financial and economic due diligence, project finance and project economic evaluation. Technical seminars on impairment provisioning, local currency lending and hedge accounting were held as well as ongoing, in-house training and awareness sessions to update staff on changes in operating guidelines and practices.

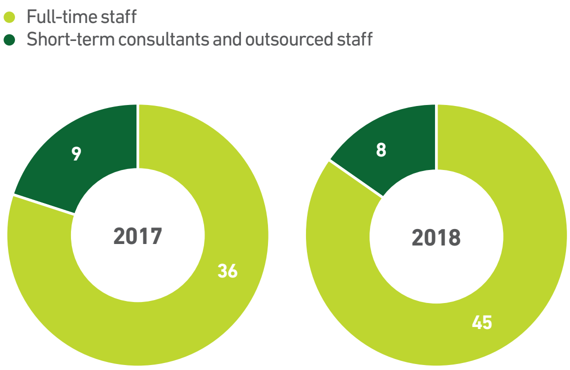
As at December 2018, the Bank had 144 staff, comprising of the President, 4 Vice Presidents, 123 full-time permanent staff, nine short-term consultants and seven outsourced employees. The staff consists of 56 females (39%) and 88 males (61%).

Of the 144 staff, 53 or 37% (CY2017: 45 or 42%) are part of the young workforce aged 32 years old and under, who are guided by the experience and expertise of Director Generals and Chiefs. The Bank provides opportunities for Junior and Young Professionals to contribute with fresh perspectives on projects, problem solving and information systems.

Human Resources Composition



Young Workforce: Age 32 and younger



Risk Management

2018 focus:

– Enterprise-wide risk
– New systems for measuring credit and market risk
– Introduction of sophisticated metrics that provided a forward-looking approach to identifying incipient risk.

NDB follows best practices aligned with international standards to actively manage all inherent risks in its activities.

Balancing business strategic success with exposure to financial and non-financial risk requires careful attention to the financial trajectory of NDB and to the day-to-day transactions within the context of the economies of the Bank's member countries.

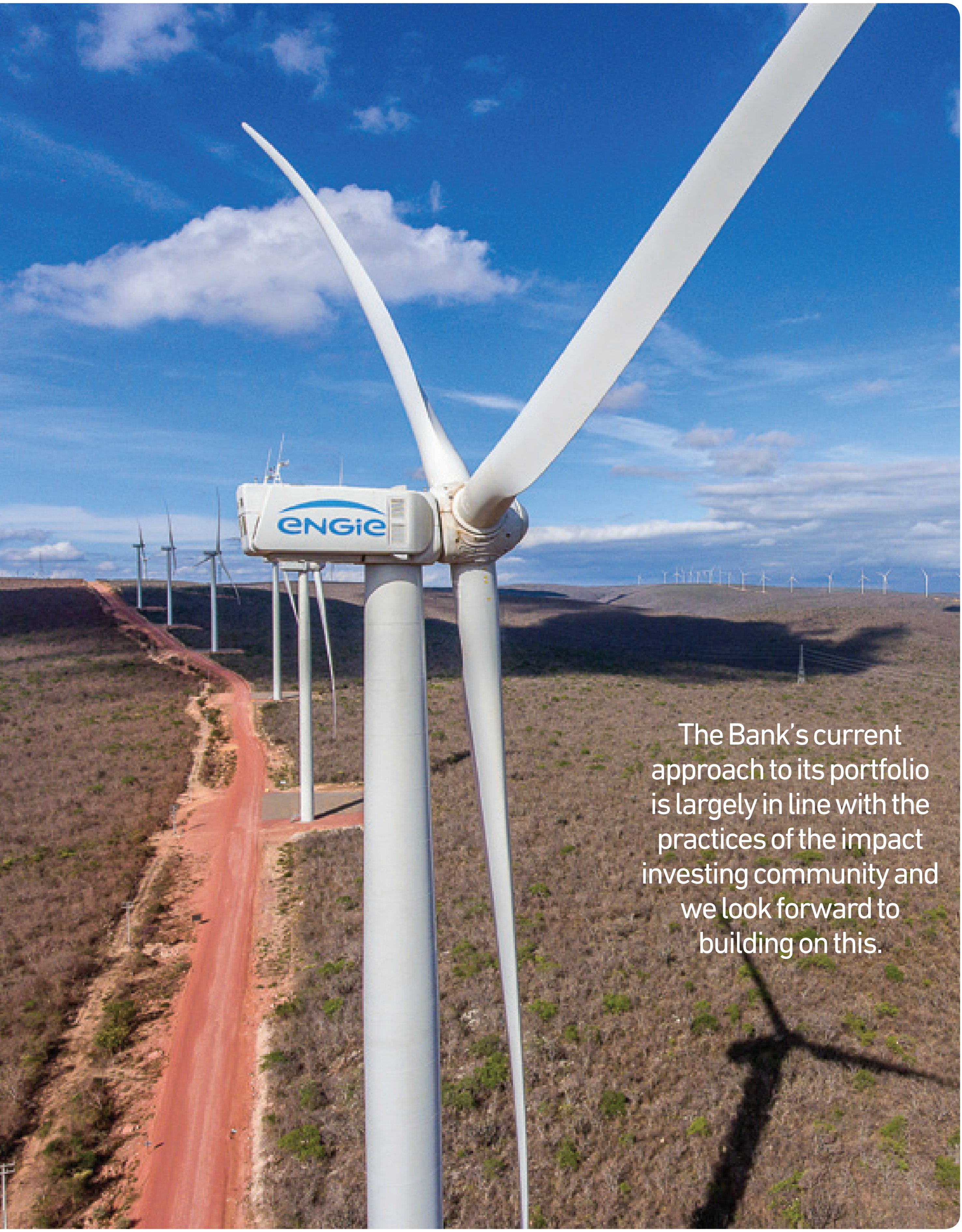
In order to safeguard its capital base, NDB follows best practices aligned with international standards to actively manage all inherent risks in its activities, including credit, market (exchange rate and interest rate risks), liquidity and operational risks. The Bank ensures that a consistent risk control approach is communicated to all divisions and staff so as to promote a strong institutional risk culture.

NDB's policies establish risk appetite parameters that supports the Bank's strategic decision-making processes and also guide operational day-to-day decisions, thereby avoiding excessive bank-wide risk taking and encouraging the development of effective controls to protect the key resources of the Bank.

As part of the overall internal control framework, the Bank follows a "three lines of defense" approach. The roles and responsibilities, risk ownership and segregation of duties among NDB's divisions have been clearly articulated as part of the overall risk governance architecture.

In 2018, risk management development focused on enterprise-wide risk, new systems for measuring credit and market risks and introduction of sophisticated metrics that provided a forward-looking approach to identifying incipient risk.

Additionally, the Bank has initiated projects to automate various processes, such as its loan management system, which aims to minimise operational risks and further strengthen risk management practices.



The Bank's current approach to its portfolio is largely in line with the practices of the impact investing community and we look forward to building on this.

Operations

KEY INFORMATION ABOUT THE BANK'S OPERATING ENVIRONMENT AND PROJECTS

NDB's Operating Context

GLOBAL OUTLOOK

In 2018, the largest number of countries in over a decade experienced economic expansion. World GDP grew in 2018 at 3.6%[1], a slight deceleration from the previous year but continuing the economic expansion that has been underway since the aftermath of the 2008 financial crisis.

In 2018, Emerging and Developing Asia remained the fastest growing region, with estimated GDP growth of 6.6% (2017: 6.4%), followed by Emerging Europe with growth of 3.6% (2017: 6.0%) and Sub-Saharan Africa with 3.0% (2017: 2.9%). Economic performance was subdued in Latin America and the Caribbean with GDP growth rates of 1.0% (2017: 1.2%) and in the Euro area, with GDP growth at 1.8% (2017: 2.4%).

Risks to economic growth and global uncertainties increased throughout 2018. There are signs that growth may have reached a peak in advanced economies, such as the United States and some members of the European Union. The pace of monetary policy normalisation and tightening financial conditions slowed down towards the end of 2018 and some major advanced economies could move to an easing stance. Trade tensions and the moves towards protectionism constitute a downside risk to global economic growth.

Infrastructure investments, while growing, remain insufficient to support new and more complex investment demands brought about by:

– rapid urbanisation
– environmental pressures
– growing inequality
– demographic transitions.

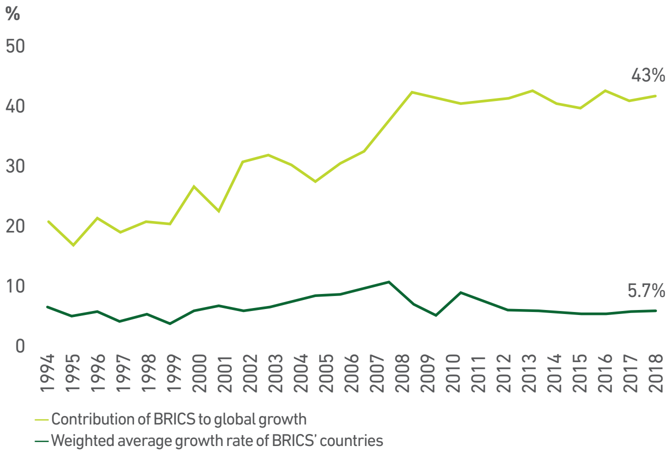
Total global infrastructure investments are expected to reach USD 35 trillion up to 2030, while it is estimated that about USD 45 trillion is needed to meet the SDGs[2]. Global infrastructure investments should increase on average by 26.3% to meet the SDGs by 2030. NDB is well positioned to contribute to member countries' development and the infrastructure funding gap.

NDB PROJECT CYCLE

1	2	3	4	5	6
Identify business opportunities to support members Potential projects and project pipeline aligned with NDB's mandate and strategy Clients' needs are assessed	Assess the project's impact and development contribution Senior management approval	Conduct project due diligence, including risk assessment Negotitations and agreement of terms, in principle	CIC approval and endorsement Board approval	Loan signing Loan effectiveness and disbursement Loan servicing	Project implementation Monitor strategic development impacts
BUSINESS DEVELOPMENT	CONCEPT	APPRAISAL	CIC & BOARD APPROVAL	COMMITMENT AND DISBURSEMENT	MONITORING

1 All GDP figures for this section were sourced from IMF World Economic Outlook (WEO) Database, April 2019.
2 All infrastructure investment figures for the remainder of this document were sourced from G20 Global Infrastructure Hub. Accessed on December 19, 2018.

Growth rate of BRICS countries and their contribution to global growth

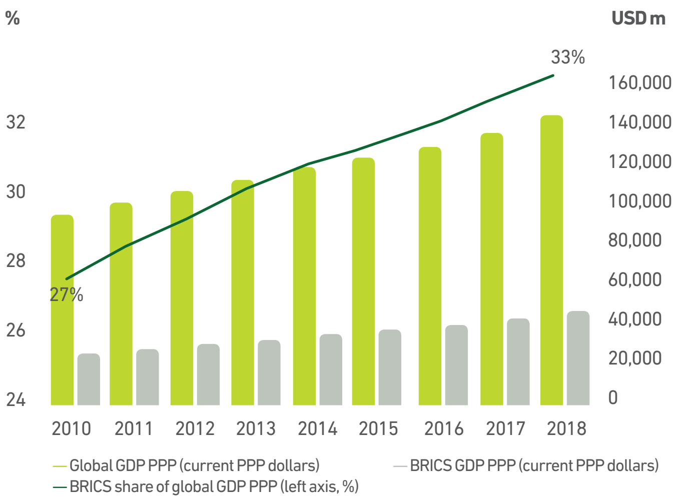


BRICS ECONOMIC OUTLOOK

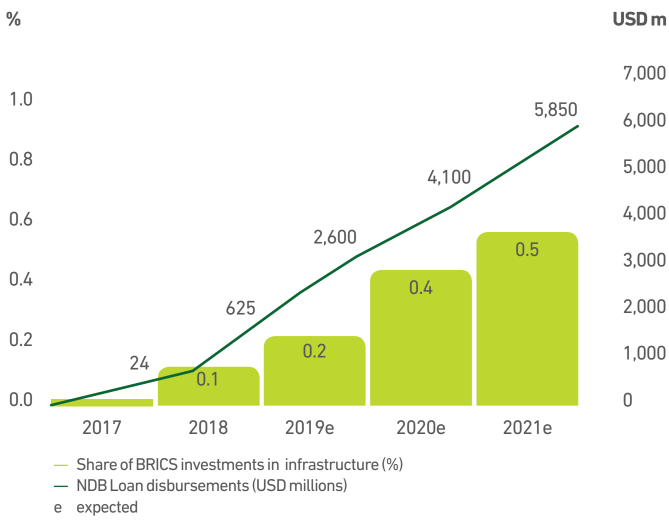
The BRICS countries are implementing policies and structural reforms to enhance economic growth and/or promote more equitable growth patterns. The weighted average GDP growth of the five economies was 5.7% in 2018, the highest expansion in the past five years, contributing to approximately 43.2% of global growth. As a result of their robust growth, BRICS' share of global GDP measured in PPP terms has been increasing from 27.2% in 2010 to 32.7% in 2018, which makes them larger than the G7 countries combined.

BRICS countries are working towards increasing and improving access to basic electricity and drinking water, sanitation, education and health facilities, while managing fiscal constraints. In line with the increasing role of BRICS in the global economy, their current combined share of global infrastructure investments is expected to increase from 40.1% in 2018 to 42.5% by 2030. This substantial increase would equate to a compounded annual growth rate of 2.3%, compared to 1.1% of G7 countries and 1.9% of other countries. BRICS are becoming an important source of capital to fund these investments. Within this context, NDB is expected to experience a fivefold increase in its share of total infrastructure investment in BRICS countries, from 0.1% in 2018, to 0.5%, in 2021, accounting for a share of 11.0% in South Africa, 3.0% in Russia and 2.1% in Brazil.

BRICS countries share of global GDP PPP



Contribution of NDB to BRICS' investments in infrastructure per year[1]



1 NDB disbursement projections from the General Strategy 2017:2021 (Scenario 1).

NDB Operations Summary

LOANS

Loans

As at December 31	Metric	2018	2017
Approved loans	Number	**30**[1]	13
Cancelled loans	Number	**1**	–
Approved loans	USD million	**8,078**[1]	3,419
Cancelled loans	USD million	**250**	–
Signed loans	USD million	**3,938**	1,645
Effective loans	USD million	**2,968**	1,345
Disbursements	USD million	**625**	24

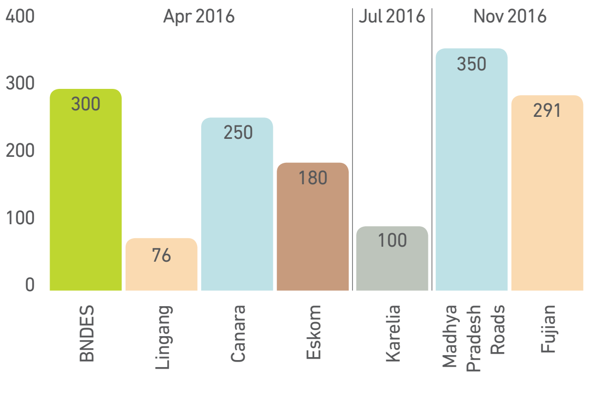
Loans approved by area of operation

USD m As at December 31	2018	2017
Clean energy	**2,187**[1]	1,218
Environmental efficiency	**700**	200
Irrigation, Water resource management and Sanitation	**1,426**	1,122
Social infrastructure	**460**	460
Transport infrastructure	**2,175**	419
Urban development	**1,130**	–
Total	**8,078**	**3,419**

LOAN APPROVALS AS AT DECEMBER 31, 2018[2]

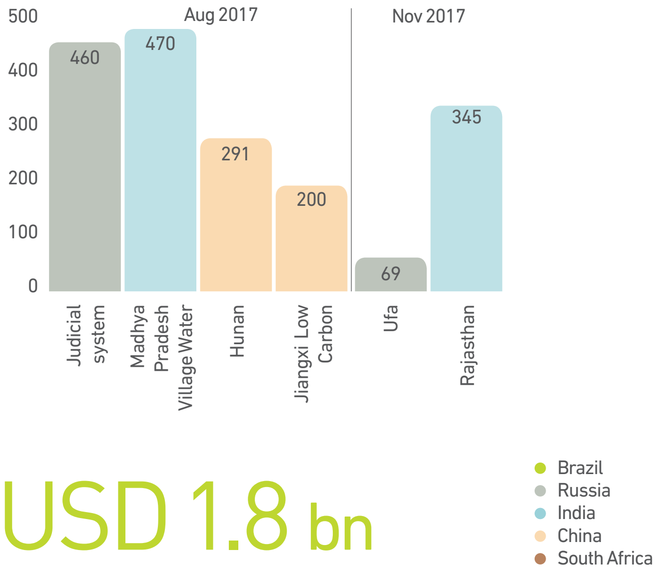
7 Loans approved in 2016[1]

USD m



6 Loans approved in 2017

USD m



USD 1.5 bn

Total value of approved projects in 2016

USD 1.8 bn

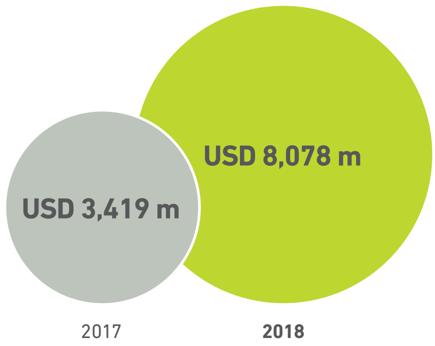
Total value of approved projects in 2017

1 Includes the USD 250 million loan to Canara Bank for its Renewable Energy Financing Scheme, approved in 2016 and cancelled in 2018.
2 All amounts have been translated using the exchange rate as at December 31, 2018.

Loans approved by type of operation

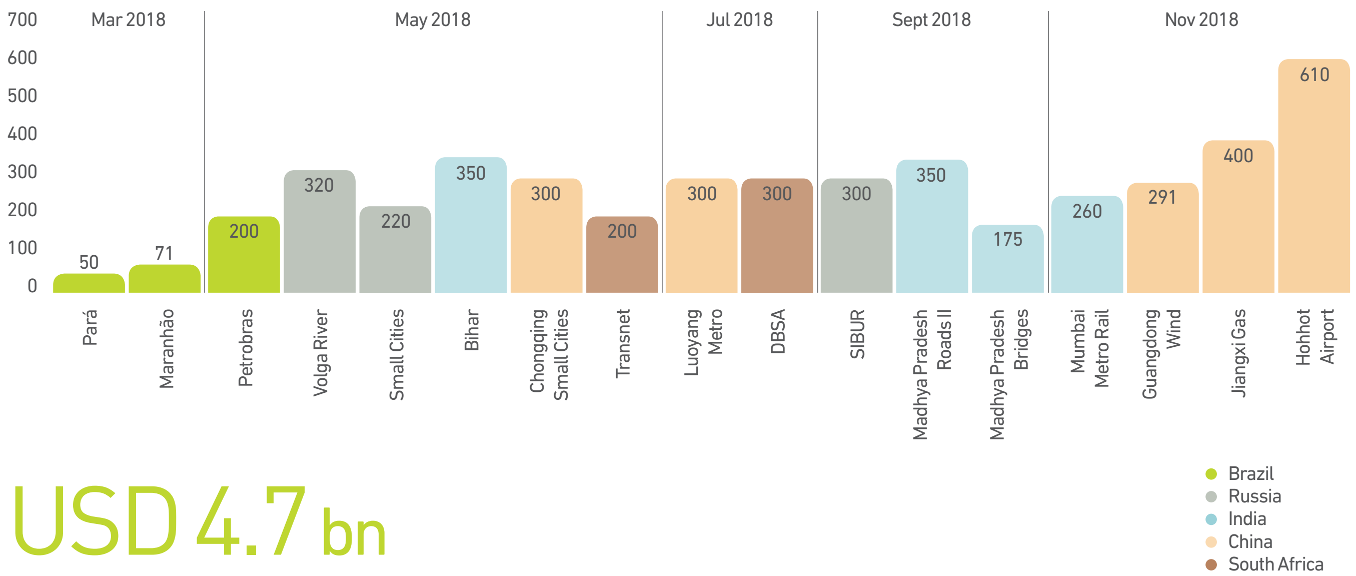
USD m As at December 31	2018	2017
Sovereign	6,678[1]	3,019
Non-sovereign	1,400[2]	400
Total	**8,078**	**3,419**

Loan approvals



17 Loans approved in 2018

USD m



USD 4.7 bn

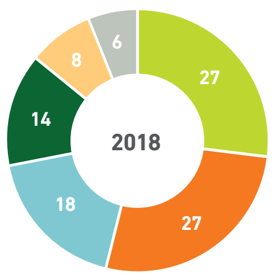
Total value of approved projects in 2018

1 Includes the USD 250 million loan to Canara Bank for its Renewable Energy Financing Scheme, approved in 2016 and cancelled in 2018.
2 USD 700 million relates to approved loans to national financial institutions and USD 700 million relates to loans approved in the private sector.

Expected development results of NDB's operations

NDB's portfolio by key area of operation

%



Clean energy	27%
Transport infrastructure	27%
Irrigation, Water resource management and Sanitation	18%
Urban development	14%
Environmental efficiency	8%
Social infrastructure	6%

SUSTAINABLE DEVELOPMENT GOALS

The Bank continues to evaluate and refine its operational approach to deliver positive development results.

The projects that NDB finances are designed and implemented in a way that avoids, mitigates or compensates for adverse impacts on the environment and social groups, in compliance with the standards set in the Bank's Environmental and Social Framework (ESF), as well as relevant environment and social country systems. The ESF is guided by core principles related to inclusive and sustainable development, climate change, environmental interests, conservation of natural resources, gender equality, precautionary approach and co-operative functioning and knowledge dissemination. Where environmental or social risks are identified, mitigation measures are introduced before an investment can be taken further.

Yet, NDB does not limit itself only to the application of the ESF requirements. The Bank finances projects that help its member countries achieve transformative results, including reversing some negative environmental and social impacts brought by economic development in the past. Each project is screened for positive development contributions, which goes beyond direct financial calculations to a longer-term and broader assessment of economic, environmental and social impact.

At the project preparation stage, investment teams assess each project's potential development contributions and design a set of indicators to monitor and evaluate its development result. The Bank is building systems to be able to collect, measure and monitor results of its operations, aligned with countries' approaches and priorities, for evidence-based and data-driven development investment.

NDB is committed to sustainable infrastructure development across its member countries, as highlighted in the Bank's General Strategy: 2017-2021. Since its inception, the Bank aims to develop and provide practical, specialised expertise in sustainable infrastructure development, including the areas of project design, regulatory issues and financing arrangements. Through knowledge sharing activities and by building sector-specific expertise, the Bank is enhancing its capacity to meet its commitment to becoming a leading player in sustainable infrastructure development.

In 2018, the expected impact of the Bank's approved projects, which NDB has collaborated or participated in, began to provide a view into its contribution to the development efforts of its member countries. Projects in transport infrastructure, clean energy, irrigation, water resource management and sanitation, as well as urban development represent the vast majority of the Bank's current portfolio. The expected development results of these projects demonstrate the trajectory of the Bank's contribution to supporting infrastructure and sustainable development in its member countries, as intended by NDB's General Strategy.

The Bank is enhancing its capacity to meet its commitment to becoming a leading player in sustainable infrastructure development.

Expected development results in select areas of operation

TRANSPORT INFRASTRUCTURE

ROADS
More than 7,800 km of roads to be built or upgraded

BRIDGES
350 bridges to be constructed or reconstructed

PORT
Port infrastructure to be developed and rehabilitated to increase its handling capacity by 500,000 TEUs

AIRPORT
A new airport to be built with expected annual passenger through-put of 22 million and freight annual freight through-put of 200,000 tons

Transport infrastructure that enhances connectivity between people, markets and services is amongst the Bank's key areas of operation.

By the end of the 2018 financial year, NDB had committed USD 2.2 billion in loans (27% of NDB's total approved loans) for eight transport projects with a combined total cost of USD 6.5 billion. Better connectivity has numerous socio-economic benefits and is a key enabler of inclusive development, especially for populations in underserved areas. Greater employment opportunities and access to markets and social services, such as education and healthcare, result in higher incomes, increased labour force participation and improved living standards.

Transport infrastructure lies at the heart of sustainable development, because it contributes to the achievement of many SDGs through inter-linked impact. NDB has, in collaboration with development partners, committed to invest in building or upgrading more than 7,800 kilometres of roads in its member countries. In India alone, the Bank contributes to financing the construction and upgrade of roads with a total length of about 7,500 kilometres, as well as the construction and re-construction of about 350 bridges, to connect rural areas with the national and state highway networks, improving rural populations' access to economic, social and education centres. The Bank also helps finance projects to develop port and airport infrastructure in South Africa and China, which could bolster economic growth by expanding access to resources, markets and opportunities.

CLEAN ENERGY

RENEWABLE ENERGY CAPACITY
Over 1,500 MW of renewable energy capacity to be installed

CARBON DIOXIDE (CO_2) REDUCED
Over 1.5 million tons of CO_2 to be reduced per year

NDB supports the shift to a more sustainable energy path in its member countries by promoting emerging renewable technologies.

As at December 31, 2018, the Bank had approved USD 2.2 billion in loans (27% of NDB's total approved loans) to expand renewable infrastructure and upgrade technology to provide clean and more efficient energy in its member countries. The combined total cost of these clean energy projects amounts to USD 5.1 billion.

Through these projects, the Bank contributes to its member countries' efforts toward achieving:

– SDG 7 on affordable and clean energy,
– SDG 13 on climate action, and
– helps them transition to a low carbon economy in line with their commitments under the Paris Agreement.

By the end of the 2018 financial year, the Bank had committed to support the financing of renewable energy projects with a total installed capacity of over 1,500 MW, which are expected to help reduce over 1.5 million tons of CO_2 emissions per year.

27% of NDB's total approved loans will be used to expand renewable infrastructure and upgrade technology to provide clean and more efficient energy in its member countries.

IRRIGATION, WATER RESOURCE MANAGEMENT AND SANITATION

IRRIGATED LAND
Additional 150,000 hectares of land to be brought under irrigation

CANAL INFRASTRUCTURE
Over 1,000 km of canal infrastructure to be built or upgraded

WATER AND SANITATION
More than 3 million people to benefit from improved access to safe systems of water supply, resulting from rehabilitated sewage collection and treatment systems

Irrigation, water resource management and sanitation are an essential enabler for sustainable development and a basic requirement for achieving the ambitious goals of the UN's 2030 Agenda.

As at December 31, 2018, NDB had approved approximately USD 1.4 billion in loans for projects in these areas (18% of NDB's total approved loans). These projects have a combined total cost of USD 2.0 billion and are designed to help address critical development challenges, such as low agricultural productivity, water contamination and lack of drinking water supply, to spur socio-economic development. They contribute directly to the efforts of NDB's member countries to achieve SDG 2 and SDG 6, on ending hunger and ensuring water security and sanitation, respectively.

Through its operations related to water and sanitation, the Bank aims to help people access systems that can increase their exposure to safer and cleaner water. More than 3 million people are expected to benefit from improved access to safe systems of water supply and removal in Russia and India, resulting from rehabilitated sewage collection and treatment systems.

NDB's operations also contribute to the development of advanced and efficient irrigation systems and promote sound management of water resources, which will help modernise the agriculture sector. Projects supported by the Bank's financing are expected to help bring 150,000 hectares of land under irrigation in India and also build or upgrade 1,000 km of canal infrastructure to improve water use efficiency.

URBAN DEVELOPMENT

NUMBER OF BENEFICIARY CITIES
30 cities to benefit from sustainable urban development

MASS TRANSIT SYSTEMS
More than 80 km of metro rail to be built

NDB considers sustainable urban development to be increasingly important as a rapidly growing share of the population of its member countries live in urban areas.

By the end of 2018, the Bank had approved USD 1.1 billion in loans (14% of NDB's total approved loans) to help address with challenges brought by rapid urbanisation, such as:

– increased traffic congestion,
– uneven urban development,
– inadequate access to basic services and
– lack of preservation of heritage.

These loans contribute to the financing of six urban development projects with a combined total cost of USD 6.2 billion. They provide direct support to the member countries' efforts toward achieving SDG 11, i.e. making cities and human settlements inclusive, safe, resilient and sustainable.

In total, 30 cities across NDB's member countries are expected to benefit directly from the Bank's operations focusing on urban development. The vast majority of the beneficiary cities will be fast- growing small and medium-sized cities, where urban infrastructure is typically underdeveloped and often poorly maintained due to various reasons, including limited budgetary support. In larger cities, NDB supports the development of mass transit systems, which are designed to tackle the traffic congestion challenge and to improve connectivity within cities. NDB's financing will contribute to the construction of metro lines in two cities in China and India with a total combined length of more than 80 km.

It is worth noting that NDB increased its operations to fund urban development projects in 2018, demonstrating the Bank's ability to respond to member countries' development needs, as well as the Bank's increasing capability to undertake projects in areas that go beyond its operational focus during the initial years.

Brazil

The government implemented a series of measures to spur investments, including an acceleration of public-private partnerships and the convergence of the BNDES' interest rate to market level.

The Brazilian economy continued to gradually recover after a two-year recession, achieving 1.1%[1] real GDP growth in both 2017 and 2018. The growth outlook is supported by:

– improving business and consumer confidence;
– low inflation with anchored expectations;
– the benchmark interest rate at historic lows;
– strong foreign direct investment inflows; and
– substantial foreign exchange reserves that constitute a buffer to external shocks.

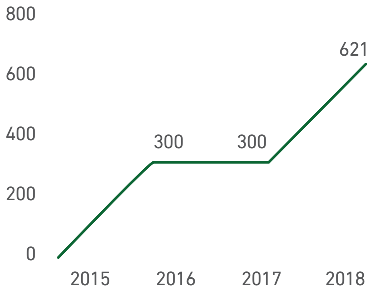
Ongoing reforms are expected to address fiscal constraints and promote increased investments from the private sector, supporting sustained economic recovery.

Brazil's limited fiscal space has recently reduced the government's capacity to sustain higher levels of infrastructure investment. In 2018, investments in infrastructure accounted for 2.9% of GDP, while it is estimated that an investment of 5.1% of GDP is required to achieve the SDGs by 2030. The government implemented a series of measures to spur investments, including an acceleration of public-private partnerships and the convergence of the BNDES' interest rate to market level. The latter is expected to result in higher participation of private players and other development banks in financing infrastructure.

In 2018, NDB approved three loans for projects in Brazil, totalling USD 321 million. The Bank committed USD 200 million through a loan to improve the environmental performance of two existing refineries of Petrobras by avoiding water and soil contamination and significantly reducing harmful emissions. A USD 71 million loan was approved to rehabilitate highway infrastructure in Maranhão, enhancing the north-south connectivity within the state. The Bank also approved a USD 50 million loan to finance the drainage and road paving programme in the state of Pará to improve its urban infrastructure. The opening of the ARO in 2019 will enhance NDB's operational capabilities and facilitate identification and preparation of bankable projects in Brazil.

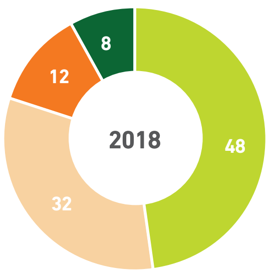
Cumulative loan approvals to Brazil

USD million



Total approvals to Brazil by area of operation

%



Clean energy	48%
Environmental efficiency	32%
Transport infrastructure	12%
Urban development	8%

1 Brazilian Institute of Geography and Statistics (IBGE).

Pará Sustainable Municipalities Project

PAVING THE WAY TO A MORE SUSTAINABLE FUTURE FOR CITIES

DEVELOPMENTAL IMPACT IN THE 12 MUNICIPALITIES

186 KM
EXISTING URBAN DIRT ROADS PAVED ALONG THE TRANS-AMAZONIAN HIGHWAY

1/3
OF THE POPULATION OF THE TARGETED MUNICIPALITIES WILL BENEFIT FROM ENHANCED ALL-WEATHER ACCESS TO PAVED URBAN ROADS AND SIDEWALKS

Many cities in the state of Pará have been experiencing rapid urbanisation, without a commensurate development in infrastructure. Pará receives abundant rainfall throughout the year; however the vast majority of roads in the state are not paved and drainage systems are not adequate to deal with these conditions. This situation compromises access to transport infrastructure and impacts the overall quality of life in the state.

In 2018, NDB partnered with the State Government of Pará to support its Sustainable Municipalities Project, designed to improve the state's urban infrastructure conditions. The project consists of three main components:

– drainage and road paving,
– sanitation; and
– telecommunications.

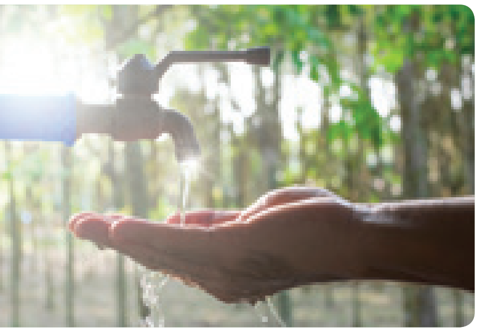
The total estimated cost of this project is USD 125 million. The project is co-financed through a USD 50 million loan from NDB, the Bank's first sovereign guaranteed loan in Brazil and a USD 50 million loan from the Development Bank of Latin America. The State Government of Pará provides the remaining USD 25 million.

The proceeds from the NDB loan will be used to pave 186 km of existing urban dirt roads in 12 municipalities along the Trans-Amazonian highway and to install underground or surface drainage systems. In addition, the NDB loan will finance capacity building activities which will improve project implementation co-ordination and promote adequate maintenance of roads and drainage equipment.

The intended development results of the project include:

– increased urban connectivity,
– improved flooding control and enhanced resilience to climate,
– reduced cost of road maintenance.

It is expected that, upon its completion, the project will help improve the quality of life for residents in the 12 municipalities, where almost a third of the population will benefit from enhanced all-weather access to paved urban roads and sidewalks.



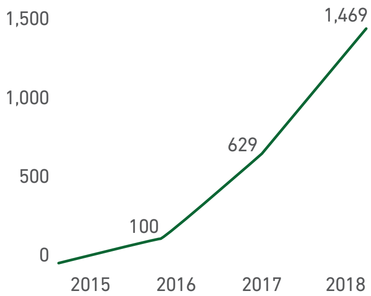
Russia

USD 840 m

Total project approvals in Russia by NDB in 2018

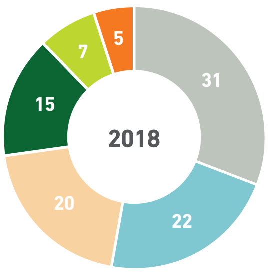
Cumulative loan approvals to Russia

USD million



Total approvals to Russia by area of operation

%



Social infrastructure	31%
Irrigation, Water resource management and Sanitation	22%
Environmental efficiency	20%
Urban development	15%
Clean energy	7%
Transport infrastructure	5%

After the 2015-16 recession, the Russian economy experienced positive growth of 1.6% in 2017 and further expanded by 2.3% in 2018[1]. Moderately conservative monetary and fiscal policies supported growth sustainability amid the sanctions environment, with inflation hovering around the 4% target.

The fiscal rule, together with foreign currency market operations, has helped to smooth exchange rate fluctuations and overall consumption, creating favourable conditions for industrial development in non-commodity sectors. These steps reflect the government's plans to promote a gradual structural shift in the economy, reducing reliance on hydrocarbon revenues and building fiscal buffers to increase resilience against external shocks.

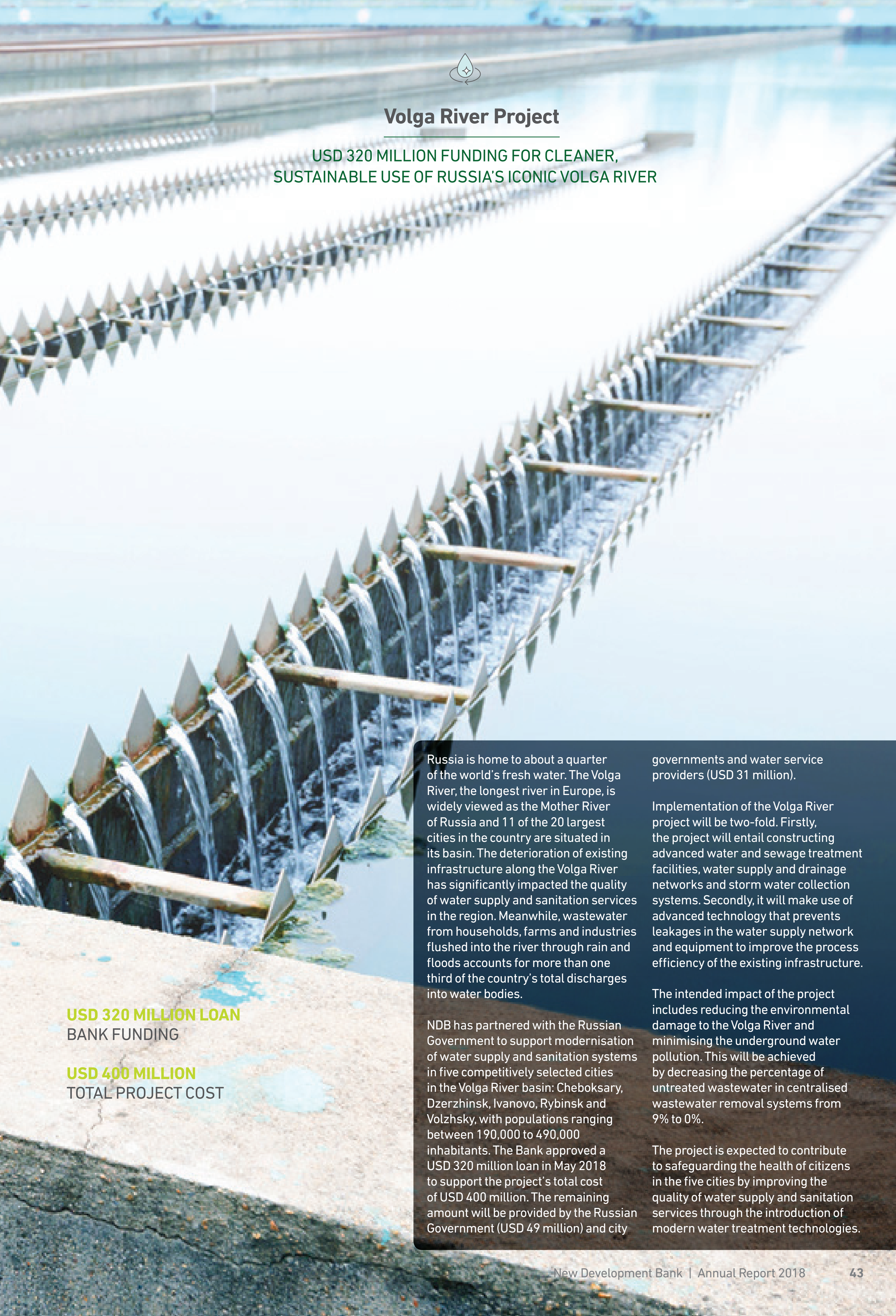
The government has articulated a policy agenda for 2018-2024 to boost economic growth primarily by speeding up investments. Proposed investments will focus on projects in:

– transportation;
– energy;
– digitalisation;
– development of remote regions; and
– socially important initiatives.

In 2018, investments in infrastructure accounted for 2.8% of GDP, while it is estimated that an investment of 4.4% of GDP is required to achieve the SDGs by 2030.

In 2018, NDB approved three loans for projects in Russia, totalling USD 840 million. The Bank approved a USD 320 million loan to modernise the water supply and sanitation systems in five cities situated along the Volga River. In addition, NDB approved a USD 300 million loan to improve the operational profile of SIBUR – Russia's leading petrochemicals producer – by, amongst other things, introducing modern and cleaner technology for enhanced productivity with reduced environmental footprint. NDB also approved a USD 220 million loan to support urban infrastructure development in nine small historic cities across seven federal subjects of Russia, with a goal to preserve cultural heritage while contributing to sustainable social-economic development of the cities.

1 Federal State Statistics Service (Rosstat).



Volga River Project

USD 320 MILLION FUNDING FOR CLEANER, SUSTAINABLE USE OF RUSSIA'S ICONIC VOLGA RIVER

USD 320 MILLION LOAN
BANK FUNDING

USD 400 MILLION
TOTAL PROJECT COST

Russia is home to about a quarter of the world's fresh water. The Volga River, the longest river in Europe, is widely viewed as the Mother River of Russia and 11 of the 20 largest cities in the country are situated in its basin. The deterioration of existing infrastructure along the Volga River has significantly impacted the quality of water supply and sanitation services in the region. Meanwhile, wastewater from households, farms and industries flushed into the river through rain and floods accounts for more than one third of the country's total discharges into water bodies.

NDB has partnered with the Russian Government to support modernisation of water supply and sanitation systems in five competitively selected cities in the Volga River basin: Cheboksary, Dzerzhinsk, Ivanovo, Rybinsk and Volzhsky, with populations ranging between 190,000 to 490,000 inhabitants. The Bank approved a USD 320 million loan in May 2018 to support the project's total cost of USD 400 million. The remaining amount will be provided by the Russian Government (USD 49 million) and city governments and water service providers (USD 31 million).

Implementation of the Volga River project will be two-fold. Firstly, the project will entail constructing advanced water and sewage treatment facilities, water supply and drainage networks and storm water collection systems. Secondly, it will make use of advanced technology that prevents leakages in the water supply network and equipment to improve the process efficiency of the existing infrastructure.

The intended impact of the project includes reducing the environmental damage to the Volga River and minimising the underground water pollution. This will be achieved by decreasing the percentage of untreated wastewater in centralised wastewater removal systems from 9% to 0%.

The project is expected to contribute to safeguarding the health of citizens in the five cities by improving the quality of water supply and sanitation services through the introduction of modern water treatment technologies.

India

India remains the fastest growing major economy in the world and infrastructure investments remain a key driver of India's strong growth.

India's GDP expanded by 7.1%[1] in 2018 and its growth is expected to accelerate further, helping the country to remain among the fastest growing economies in the world.

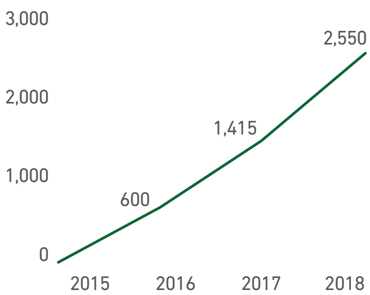
The resilience of India's external position was tested in 2018 by a simultaneous occurrence of monetary tightening in the US and higher oil prices, causing the Rupee to depreciate. Stress in the Indian banking sector continued as the proportion of non-performing assets remained high. In addition, liquidity conditions were tightened due to defaults in the non-banking financial sector. However, the implementation of financial sector reforms eased some of the stress and is expected to create a more inclusive growth model, setting the stage for higher investments and private consumption.

Infrastructure investments remain a key driver of India's strong growth and are supported by large budgetary allocations for the construction of roads, railways and airports. These investments have helped improve infrastructure connectivity, especially to interior and inaccessible areas. The pace of construction of national highways in 2018 reached 25 km per day, up from 22 km per day in the previous year. India invested 4.6% of GDP in infrastructure in 2018. However, it is estimated that an investment equivalent to 7.1% of GDP is required to achieve the SDGs by 2030. This gap provides opportunities for NDB to contribute to key areas aligned with the Bank's mandate and India's priorities.

In 2018, NDB approved four loans for projects in India, amounting to USD 1.1 billion. The Bank approved a USD 350 million loan to support rural roads development and improve connectivity within the state of Bihar. Similarly, NDB approved a USD 350 million loan to rehabilitate major district roads in the state of Madhya Pradesh. In addition, to enhance the benefits of strengthened road connectivity in Madhya Pradesh, NDB approved a USD 175 million loan to upgrade bridges in the state. To facilitate urban mobility and improve transport capacity, the Bank also approved a USD 260 million loan to construct three metro lines in Mumbai, which is facing challenges brought about by rapid urbanisation.

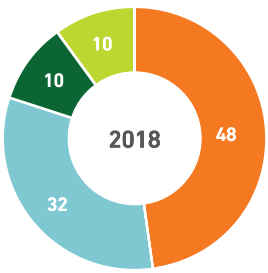
Cumulative loan approvals to India

USD million



Total approvals to India by area of operation

%



- Transport Infrastructure 48%
- Irrigation, Water resource management and Sanitation 32%
- Urban development 10%
- Clean energy 10%

1 IMF World Economic Outlook Database, April 2019.

Bihar Rural Roads Project

BUILDING ALL-WEATHER ROADS TO INCREASE CONNECTIVITY AND IMPROVE RURAL LIVELIHOODS

4,000 KM
RURAL ROADS UPGRADE

Located in eastern India, Bihar is the third most populous state in the country. It has a strong agricultural base, with the vast majority of its 104 million residents living in rural areas and relying on agriculture for their livelihoods. Despite the high economic growth witnessed in recent years, Bihar has one of the lowest levels of per capita GDP in India, which remains less than 40% of the national average. There is considerable disparity in the per-capita income across the districts of Bihar, which is often attributed to the pronounced gap in rural road development. It is within this context that the Government of Bihar aims to improve local connectivity and in doing so facilitate socio-economic development.

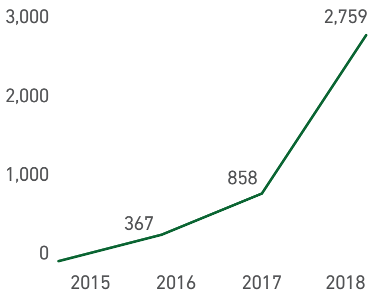
In 2018, NDB approved a loan of USD 350 million to the Government of India, for on-lending to the Government of Bihar, to finance the Bihar rural roads project. The total project cost is USD 500 million, the balance of which – USD 150 million – is provided by the state government. The project will contribute to the state government's ongoing efforts to provide all-weather road connectivity to rural habitations with a population between 250 and 499, which is meant to complement the central government's rural connectivity programme whose focus is primarily on habitations with a population of more than 500.

Through this project, NDB will help the Government of Bihar enhance local connectivity and improve the state's transportation infrastructure by constructing and upgrading about 4,000 km of rural roads, providing all-weather connectivity to around 3,400 rural habitations spreading across 26 districts. By expanding and upgrading rural road networks, the project is expected to increase transport efficiency and improve access to local socio-economic centres for a large number of rural communities, some of which have been isolated for long periods. It is expected that these outcomes will enhance agricultural productivity and increase household income, leading to improved rural livelihoods in the state of Bihar.

China

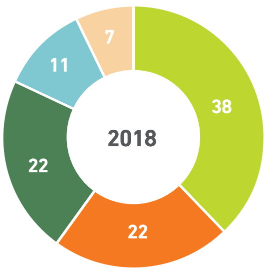
Cumulative loan approvals to China

USD million



Total approvals to China by area of operation

%



Clean energy	38%
Transport infrastructure	22%
Urban development	22%
Irrigation, Water resource management and Sanitation	11%
Environmental efficiency	7%

China's GDP expanded 6.6%[1] in 2018 as the country continued to adjust its economic structure by increasing the role of consumption in driving economic growth and by promoting structural deleveraging initiatives.

Against this backdrop, a challenging domestic and international environment pressured economic growth. The government introduced tax reductions to corporates and individuals, provided liquidity injections and accelerated infrastructure investments. These measures helped to keep the main economic and social indicators within targeted levels.

To support infrastructure investments without jeopardising the sovereign credit profile, the country took centralised stimulus measures, such as accelerating the projects approval process, increasing local government bond issuance and promoting private investments. These measures led to a rebound in infrastructure investment growth, particularly in the environmental protection and transportation sectors. In 2018, China invested 6.3% of GDP in infrastructure, while it is estimated that an investment of 6.7% of GDP is required to achieve the SDGs by 2030.

In 2018, NDB approved five loans for projects in China, amounting to USD 1.9 billion. The Bank approved a RMB 4.2 billion (USD 610 million) loan to finance the construction of a new airport in Hohhot, the capital city of Inner Mongolia Autonomous Region and an area which suffers from insufficient air transport capacity. A RMB 2 billion (USD 291 million) loan was approved to help improve Guangdong Province's energy mix, through financing the construction of an offshore wind farm. These are the two local-currency denominated loans approved by the Bank in 2018.

In the same year, NDB also approved a USD 400 million loan to improve environment conditions in Jiangxi Province, through the development of a natural gas transmission system to reduce the province's heavy reliance on coal for energy. Another loan of USD 300 million was approved to help develop the first metro system in Luoyang – a historical city located in Henan Province – to boost its urban transport capacity increasingly demanded by its rapid social-economic development. In addition, a USD 300 million loan was approved to support sustainable infrastructure development of seven small cities in Chongqing Municipality, through an integrated urban planning scheme comprised of sub-projects targeted at ecological restoration as well as urban revitalisation and upgrading.

1 National Bureau of Statistics of China.

Guangdong Offshore Wind Power Project

RMB 2 BILLION FOR OFFSHORE WIND POWER TO ACHIEVE A GREENER ENERGY MIX

INTENDED IMPACT INVESTMENT

300 MW
OFFSHORE WINDPOWER CAPACITY

810 GWH
CLEAN ELECTRICITY GENERATED EACH YEAR

500,000 TONS
CARBON EMISSIONS AVOIDED EACH YEAR

Located on the South China Sea coast, Guangdong has been the largest contributor to China's GDP since 1989, contributing about 11% to national economic output in recent years. The province, however, relies heavily on conventional sources of power generation. In 2017, coal-fired power plants accounted for over 55% of the province's total generation capacity. To reduce the negative environmental impact created by the coal-dominant power generation system, the province is re-balancing its energy mix by focusing on cleaner energy sources. With a vast coastal area, Guangdong is seeking to substantially develop offshore wind energy to meet an ambitious target of 2 GW by 2020 and 30 GW by 2030.

NDB partnered in 2018 with the provincial government of Guangdong to construct an offshore wind farm in Yangjiang's shallow water area for clean energy generation. The project comprises three main components: construction of foundation of wind turbines and generators (WTGs), supply of WTGs and project management. The total cost of the project is estimated at USD 871 million, of which about one third will be financed by NDB through a local-currency loan of RMB 2 billion (USD 291 million).

The project is expected to contribute to a greener energy mix by installing 300 MW offshore wind energy capacity, which could generate 810 GWh of clean electricity each year. This can help reduce coal consumption of about 247,000 tons annually, leading to carbon emission savings of about 500,000 tons per year. The reduced emissions could potentially help improve health conditions of local residents.

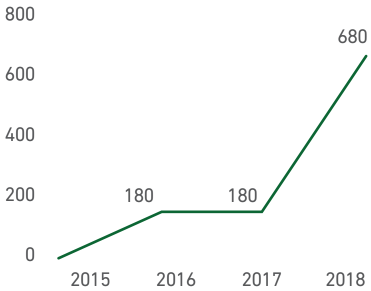
Moreover, the project is expected to benefit from NDB's growing experience and expertise in offshore wind power development in China. Following its first investment in the Putian offshore wind power project in 2016, NDB has established a panel of international experts to provide technical assistance through know-how transfer and capacity building to offshore wind farm development in China, especially in typhoon-prone areas.

South Africa

The government has adopted a comprehensive economic stimulus plan aimed at increasing investments and advancing inclusive growth.

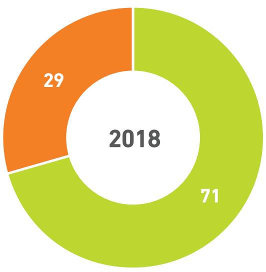
Cumulative loan approvals to South Africa

USD million



Total approvals to South Africa by area of operation

%



Clean energy	71%
Transport infrastucture	29%

In 2018, South Africa experienced 0.8%[1] GDP growth. Economic activity improved in the third and fourth quarters and growth is expected to continue accelerating over the next two years.

High and persistent unemployment and large fiscal deficit remain among the main challenges for the country to achieve sustained growth rates. In response, South Africa's government adopted a comprehensive Economic Stimulus and Recovery Plan aimed at implementing growth enhancing economic reforms, including reprioritisation of public spending to support job creation and increased investments. In addition, South Africa revised its tax policies to support fiscal pressures, including an increase in the value added tax from 14% to 15%.

South Africa continued to prioritise infrastructure investment to ease bottlenecks and increase the economy's potential growth rate. The country has committed to establish a ZAR 400 billion (USD 28 billion) infrastructure fund with resources from the budget. The fund is expected to leverage additional resources from the private sector, developmental finance institutions and multilateral development banks. In 2018, South Africa invested 3.2% of GDP in infrastructure, while it is estimated that an investment of 4.8% of GDP is required to achieve the SDGs by 2030.

In 2018, NDB approved two loans for projects in South Africa, totalling USD 500 million. NDB approved a two-step loan of USD 300 million to the Development Bank of South Africa (DBSA), which will be on-lent to renewable energy projects, such as wind, solar and biomass. NDB also approved a USD 200 million loan to increase the capacity of Durban Port – the main gateway and hub-port for Africa – through infrastructure development and rehabilitation of the Durban Container Terminal. ARC has been supporting the identification and preparation of projects in South Africa, which is expected to help accelerate operations in the country, in line with South Africa's National Development Plan.

1 Statistics South Africa (Stats SA).

The Development Bank of Southern Africa (DBSA)

FACILITATING CLEAN ENERGY GENERATION PROJECTS IN SOUTH AFRICA AND REDUCING GREENHOUSE GAS EMISSIONS

South Africa is on the trajectory of greener and more sustainable development. South Africa has committed to a reduction in greenhouse gas emissions to a range between 398 and 614 million metric tons of CO_2 equivalent by 2030. This commitment was translated into Nationally Determined Contributions from South Africa to the Paris Agreement on Climate Change 2015. The biggest potential contribution to the targeted emission reduction is expected to be made by a shift towards low carbon energy sources for electricity generation.

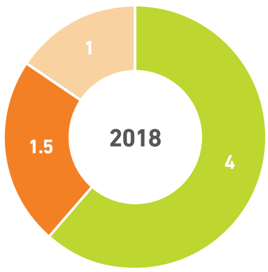
DBSA has historically and continues to play a significant role in developing the clean energy sector in South Africa through financing renewable energy projects. To enhance the role played by this national financial intermediary, in July 2018, NDB approved a USD 300 million loan to DBSA for on-lending to renewable energy projects (sub-projects) including, but not limited to, wind, solar and biomass. The combined total cost of the sub-projects is estimated at USD 600 million and NDB's loan will finance up to 50% of each of the sub-projects costs. The project's objective is to facilitate investments in renewable energy that contributes to the reduction of greenhouse gas emissions and a diversification of the energy generation mix in South Africa. It is expected that at least 3 renewable energy projects with not less than 375 MW of total installed capacity shall be put into operation by 2021. Through this project, South Africa, with the support of NDB will be able to work towards its commitments under the Paris Agreement on Climate Change 2015.

Project Preparation Fund (PPF)

THE BOARD OF GOVERNORS APPROVED THE ESTABLISHMENT OF NDB PPF ON JANUARY 20, 2017.

PPF Contributions received

USD m



China	62%
India	23%
Russia	15%

The objective is to help NDB achieve its purpose of promoting infrastructure and sustainable development by supporting preparation of bankable projects to facilitate borrowing member countries to raise funds for such projects from NDB and others.

The PPF is established as a multi-donor fund which is open to contributions by all the Bank's members. The objective is to help NDB achieve its purpose of promoting infrastructure and sustainable development by supporting preparation of bankable projects to facilitate borrowing member countries to raise funds for such projects from NDB and others.

The Bank has signed contribution agreements with three of the member countries. In 2017, the first contribution agreement was signed with China for a commitment contribution of USD 4.0 million and the second contribution agreement was signed with Russia for a committed contribution of USD 1.5 million, to be received in three instalments. The Bank signed the third agreement, in 2018, with India for USD 1.5 million.

As at December 31, 2018, USD 6.5 million (CY2017: USD 4.5 million) was received, USD 4.0 million from China, USD 1.0 million from Russia and USD 1.5 million from India.

Contributions received

USD m As at December 31	2018	2017
Received	**6,500**	4,500

Asset quality

Months As at December 31	2018	2017
Average rating of treasury liquid assets	**A+**	A+
Average maturity of treasury assets	**2 months**	1 month

2019

LOOKING AHEAD

PROSPECTS FOR INFRASTRUCTURE INVESTMENT

BRICS countries accounted for 32.7% of global GDP in 2018 and are expected to expand to 36.8% in 2024[1]. Infrastructure investments of BRICS countries are expected to account for a growing share of global infrastructure investments, increasing from 40.1% in 2018 to 42.5% in 2030, while that of emerging markets and developing countries is expected to increase from 62.2% to 65.3% by 2030. As part of its strategy to fill the demand gap and complement resources with other MDBs, NDB will endeavour to continue contributing meaningfully towards total infrastructure investments in its member countries. This could help enhance productivity, reduce poverty, contribute to the development of domestic capital markets and promote overall trade and investment opportunities.

The macro-economic outlook of BRICS countries is inspiring, with continued expansion which is underpinned by changes in policies and reforms to sustain and enhance economic growth.

FUTURE OPERATIONS

For 2019, the Bank has set an ambitious target to increase its 30 projects, valued at about USD 8 billion, to 60 projects in 2019, valued at USD 15 billion. At the same time, technology advancement is substantially changing the nature and scope of infrastructure demands. Innovation, speed and agility are required for impact investments to meet these demands. In response, the Bank will continue to operate mainly in a cloud-based computing environment. The Bank will also support member country systems for procurement, environmental and social standards and continue to speed up project preparation and approval.

In compliance with the General Strategy: 2017-2021, NDB has received strong domestic and international credit ratings in order to hold down its cost of funding for the benefit of its borrowers. Continuing to achieve the most favourable international credit rating remains a strategic focus to establish itself as a reliable borrower in international and domestic capital markets to help sustain the Bank's counter-cyclical role in infrastructure investments. The resultant cost savings will be passed through to the Bank's borrowers.

JOINT EFFORTS IN RESPONSE TO COMMON CHALLENGES

The SDGs outlined in the UN's 2030 Agenda for Sustainable Development represent tremendous investment opportunities and fully embody the fundamental objectives of MDBs. Yet, despite growing momentum for investments in sustainable development, the financing gap remains significant[2]. To free up more capital, the Bank will explore ways to maximise its balance sheet capacity to promote impact development.

The Bank is also committed to working with other MDBs in packaging projects to bankability and significantly scaling up investments in sustainable infrastructure. This is based on demands from member countries, through the use of guarantees, co-financing and budgetary support.

TOOLING UP

2019 will mark NDB's fourth full year of operations. The Bank will increase its human resource base in Shanghai and regional offices from 144 to 230. To support the Bank's lean operations, cloud-based technologies are deployed, which are also more secure, cost effective and efficient.

In 2019, the focus on technology continues which, amongst the technology enhancement efforts, includes a loan management system and improvement of the Bank's Enterprise Resource Planning system to support Straight-Through-Processing. This aims to establish a more user-friendly, seamless and secure method of project management. The Bank's investment in IT infrastructure seeks to enhance the integration of core systems with projects and connect the Bank globally through the utilisation of secure, robust and interactive systems.

The Bank will continue to assess innovative ways of supporting new types of infrastructure along with technological changes aimed at enhancing efficiency and productivity.

1 IMF World Economic Outlook, April 2019.
2 UN official website. Accessed on December 27, 2018.

NDB's regional offices and new headquarters

NDB's ARC, opened on August 17, 2017 in Johannesburg, has seen its first full year of operations. As the focal point and representation for the Bank in Africa, the ARC has served as the Bank's interface for governments, private sector entities and financial institutions. It is also tasked with project identification and project preparation. In a short period of time, the ARC has been instrumental in providing insight into how the Bank can enable scaling up of lending within the South African context.

The lessons learned from the ARC will be applied to the regional offices expected to be opened in all of the Bank's member countries. The upcoming opening of the regional offices in Brazil and Russia is planned for 2019. These offices will not only represent a physical footprint of NDB in each member nation but will also play a crucial role in the identification and preparation of bankable projects. Additionally, it will facilitate the Bank's expansion of activities in the respective continents where each member country is located.

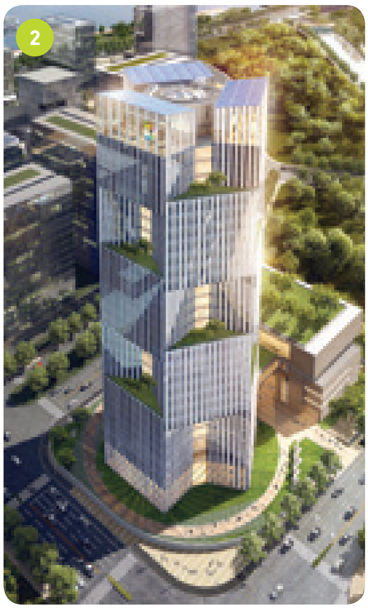
The construction of NDB's new headquarters, along the Huangpu River in Shanghai, commenced in September 2017. The building has four basement floors and 30 floors above ground. By December 2018, the core structures had already reached the tenth floor. By the end of 2019, all of the floors and at least half of the mechanical, electrical engineering and interior fittings are targeted for completion.

The construction in Shanghai reached the mid-point milestone on October 18, 2018. The event was attended by NDB President, Mr. K.V. Kamath, NDB staff, representatives of the Shanghai Municipal People's Government and the architecture and design companies involved in the construction.

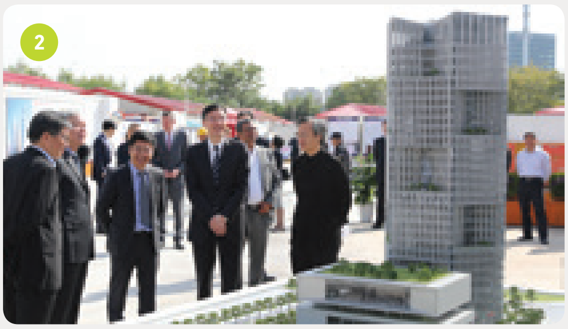
Innovation, safety, efficiency and sustainability are amongst the priorities for the construction project, set to be completed in 2021. Working in close partnership with the Shanghai Municipal People's Government, the building is designed to achieve China's three-star green building rating, China's three-star health building rating and an international US LEED-NC platinum rating. Once completed, the building is expected to achieve several international green building ratings.

1. Ceremony marking the mid-point of construction for NDB's new headquarters.

2. Artists impression of the new headquarters.



The Bank will continue to assess innovative ways of supporting new types of infrastructure along with technological changes aimed at enhancing efficiency and productivity.



1. Signing ceremony of the Agreement on the Hosting of the Bank's American Regional Office in São Paulo.

2. NDB HQ construction mid-phase event.

NDB's regional offices and new headquarters

Life in Shanghai

NDB's organisational culture, high performance and location contribute to a healthy work-life balance, positioning the Bank as an employer of choice for professionals who value an environment which fosters a culture of collaboration and seek to make an impact in what they do. The Bank's headquarters are in Pudong, the financial centre of Shanghai, a dynamic and highly developed world-class city. Shanghai offers a cosmopolitan lifestyle, urban green spaces, vibrant cultural life, safety, high-quality education and efficient public transport for the global professionals the Bank wishes to attract.

1. NDB's current headquarters in Lujiazui, Shanghai.

2. Lujiazui, Shanghai skyline.

Management discussion & analysis

Management discussion & analysis

This report should be read together with NDB's financial statements. The Bank undertakes no obligation to update any forward-looking statements.

SECTION I
EXECUTIVE SUMMARY

Financial highlights

Net operating profit
The conclusion of the 2018 financial year marks the Bank's three and a half years of operations. For the year ended December 31, 2018, the Bank reported an operating profit of USD 72.0 million (CY2017: USD 30.9 million). Staff and operating expenses were tightly controlled to effectively support lean and agile operations.

Net interest income
For the year ended December 31, 2018, the Bank reported net interest income of USD 109.8 million (CY2017: USD 49.8 million). This increase was driven by USD 113.2 million of interest income earned from the treasury portfolio investments (CY2017: USD 63.7 million) and USD 10.2 million interest income earned from the Bank's loan portfolio (CY2017: USD 182,000).

Portfolio Performance

Approved loan portfolio
In 2018, the total loan portfolio grew by USD 4.7 billion to USD 8.1 billion. Approvals for the year were more than double the the USD 1.8 billion approved during 2017. 30 loans were approved in 2018 (of which one was cancelled)[1], up from 13 projects in 2017.

Investment portfolio
At December 31, 2018, the investment portfolio totalled USD 4.8 billion, increasing by USD 800.0 million during the financial year (CY2017: USD 4.0 billion). The investments are concentrated in high-quality assets with appropriate maturities to maintain sound levels of liquidity.

Borrowings
The Bank's borrowing portfolio consists of the RMB-green bond which was issued in 2016. At the end of the 2018 financial year, the bond's fair value was USD 443.8 million, marginally down from the fair value of USD 449.4 million reported at December 31, 2017. This was attributable to changes in exchange rates and market interest rates during the course of the year. The proceeds from the RMB 3.0 billion (USD 436.0 million) bond issuance has been fully disbursed to fund five green projects which met the Green Bond Project Requirements (CY2017: RMB 80.8 million; USD 12.4 million).

In light of the successful disbursement of all proceeds raised from the green bond, the Bank is planning to register similar programmes in all its member countries based on the demand for local currency financing.

Equity
For the 2018 financial year, the paid-in capital balance amounted to USD 5.0 billion and was received in accordance with the payment schedule set out in the AoA.

The timely receipt of capital contributions demonstrates the commitment and support NDB receives from its members.

SECTION II
NDB's STRATEGY

The 2018 financial year has seen NDB continue its efforts to fully operationalise its activities and achieve a rapid, though prudent, growth phase, building on the strong foundation that has been laid since the Bank's inception in 2015. The Bank continues to be steered by the guiding principles of its General Strategy: 2017-2021 of mobilising resources for infrastructure and sustainable development projects.

2018 has seen a natural evolution in NDB's development impact planning and operational approach. The Bank is striving to deliver the strongest social, economic and environmental impact aligning with the development efforts of its member countries. NDB's portfolio extends beyond its initial focus of core renewable energy sectors to include areas such as rural roads, ecosystem restoration, access to water supply particularly in rural areas, irrigation system restructuring and energy conservation. NDB's lending supports infrastructure and sustainable development projects and aligns directly with the principles embodied in the UN's 2030 Agenda for Sustainable Development.

NDB's policies and operations are based on each member country's socio-economic context and are designed to assist its members as they progress along their respective development paths. It is with this aim in mind that the Bank will continue to strengthen its existing relationships and also establish new relationships in other emerging economies.

1 Relates to the USD 250.0 million loan to Canara Bank for its Renewable Energy Financing Scheme, approved in 2016 and cancelled in 2018.

The Bank understands that global infrastructure goals can only be achieved through collaborative efforts. Throughout 2018, the Bank added its support to the joint framework with other MDBs to align their activities with the goals of the Paris Agreement, signed four additional MoUs with peer organisations and reaffirmed its pledge to support resilient, sustainable infrastructure at the Global Infrastructure Forum.

NDB, as a new MDB, has the benefit of learning from its peers and, most importantly, is well-positioned to harness the power of new technology in its solutions and approaches. In 2018, NDB continued to realise security, cost-effectiveness and efficiency benefits from its cloud-based platforms and also streamlined its decision-making processes by leveraging video technology. This institutional mindset will enable NDB to evolve within the business environment in which it operates.

SECTION III
FINANCIAL RESULTS

Lending Activities

Approved loan portfolio: sovereign and non-sovereign

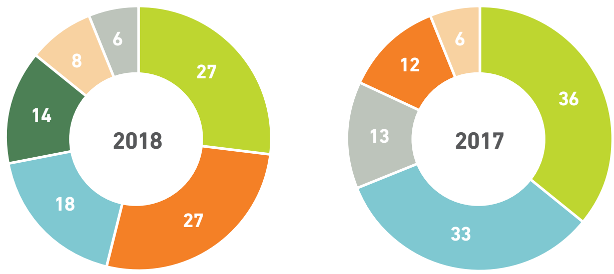
USD m As at December 31	2018	2017	Movement	% Change
Sovereign Loans	**6,678[1]**	3,019	3,659	121
Non-Sovereign Loans	**1,400**	400	1,000	250
Approved loans	**8,078**	3,419	4,659	136
Disbursed loans	**625**	24	601	2,504

As at December 31, 2018, total loan disbursements were USD 624.6 million (CY2017:USD 23.9 million) which included the Bank's first fully disbursed loan of USD 300.0 million to BNDES, which financed three renewable energy sub-projects aimed at diversifying Brazil's energy mix. Disbursements are expected to increase going forward as NDB has a strong project pipeline and demand for funding sustainable infrastructure in member countries remains high. The Bank finances its loan assets through a mixture of equity and borrowings raised in the capital markets.

To date, the Bank has fully utilised the proceeds from the green bond to fund disbursements for projects that have met the Green Bond Project Requirements.

Loan portfolio by key area of operation

%



% As at December 31	2018	2017
Clean energy	**27**	36
Transport infrastructure	**27**	12
Irrigation, Water resource management and Sanitation	**18**	33
Urban development	**14**	–
Environmental efficiency	**8**	6
Social infrastructure	**6**	13

NDB's approved loan portfolio split is spread across the Bank's key areas. The Bank initiated lending in the urban development sector for the first time in the 2018 financial year. This reflects NDB's ability to appraise increasingly complex projects as the Bank continues to move up the learning curve and demonstrates its ability to respond to member countries' infrastructure needs.

Loan portfolio by area of operation

USD'000 As at December 31	2018	2017
Clean energy	**2,187[1]**	1,218
Environmental efficiency	**700**	200
Irrigation, Water resource management and Sanitation	**1,426**	1,122
Social infrastructure	**460**	460
Transport infrastructure	**2,175**	419
Urban development	**1,130**	–
Total	**8,078**	3,419

1 Includes the USD 250.0 million loan to Canara Bank for its Renewable Energy Financing Scheme, approved in 2016 and cancelled in 2018.

Condensed Statement of Income

USD'000 As at December 31	2018	2017	Movement	% Change
Interest income from banks	**113,191**	63,681	49,510	78
Interest income from loans and advances	**10,209**	182	10,027	5,509
Total interest income	**123,400**	63,863	59,537	93
Interest expense on short-term borrowings	**(7)**	–	(7)	–
Interest expense on bonds issued	**(13,590)**	(14,020)	430	(3)
Net interest income	**109,803**	49,843	59,960	120
Net fee income	**418**	21	397	1,890
Net interest income after fees	**110,221**	49,864	60,357	121
Operating costs	**(37,246)**	(26,091)	(11,155)	43
Impairment provision	**(3,758)**	(23)	(3,735)	16,239
Foreign exchange and fair value gains/(losses)	**2,820**	7,102	(4,282)	(60)
Operating profit for the year	**72,037**	30,852	41,185	133

Interest Income from Loans and Advances

Interest income from loans and advances increased from USD 182,000 in 2017 to USD 10.2 million in 2018 due to higher disbursements during the year. The increase can be attributed to NDB disbursing on an additional six loans compared to the two loans in the previous year.

In 2018, 17 loans were effective (all conditions precedent were met to qualify for drawdown on the loan). Subsequent to the 2018 financial year end, a further six loans have become effective indicating that robust interest income growth will continue in 2019.

Interest Expense on Bonds Issued

The interest expense on the RMB 3.0 billion green bond amounted to USD 13.6 million for the current year, marginally down from the USD 14.0 million bond expenses incurred in 2017. The year-on-year difference was due to the weakening of RMB against USD.

Net Fee Income

Net fee income consists of front-end and commitment fees. NDB charges a front-end fee at the date of the first drawdown by the borrower, with the income recognised over the life of the loan. The increase in recognised front-end fees is attributed to the six projects which saw their first drawdowns in 2018.

Commitment fees are levied on the accrued portion of the undisbursed loan balance to cover the cost of keeping adequate liquidity to meet the disbursement needs of the Bank's borrowers. Commitment fees recognised in the 2018 financial year were marginal as it related to one loan. No commitment fees were recognised in the 2017 financial year.

Operating Costs

Operating expenses for 2018 was USD 37.2 million (USD 26.1 million). The increase is predominantly attributable to staff costs and technology expenses, driven by the expansion in the scope and scale of the Bank's operations.

The increase in staff costs of USD 6.4 million is attributable to the following:

- an increase of USD 3.6 million in salaries and allowances (CY2018: USD 19.4 million; CY2017: 15.8 million); and

- an increase of USD 2.8 million in other staff benefits (CY2018: USD 5.9 million; CY2017: 3.1 million) which was driven by the 38 additional full-time staff employed during the 2018 financial year.

The year-on-year increase in technology costs from USD 239,000 to USD 1.8 million was a result of the implementation of the treasury management system, SWIFT, expansion of the virtual desktop infrastructure, IT set up costs for regional offices and the procurement of other risk management tools.

Impairment Provision

The Bank records provisions against loans and other exposures to reflect any expected Credit Losses (ECL) in accordance with IFRS 9. As at December 31, 2018, the Bank had an accumulated ECL provision for losses on loans and other exposures of USD 3.8 million (CY2017: USD 23,000). The increase in the impairment provision reflects the higher number of disbursements in 2018, particularly related to non-sovereign projects loans, as well as the increased forecast disbursement for the 2019 financial year.

Foreign Exchange and Fair Value Gains/Losses

The decrease in the foreign exchange and fair value gains/ losses related to two factors:

– A translation loss of USD 5.0 million (CY2017: USD 5.8 million gain), which was driven by a weakening RMB/USD exchange rate; and

– A net fair value gain of USD 7.8 million, which was driven by fair value adjustments on the green bond liability (which is reported at fair value) and the corresponding fair value adjustments on the derivatives.

To manage and limit the effects of risks associated with fluctuating exchange and interest rates, NDB has entered into derivative contracts with highly rated counterparties to hedge the interest rate and foreign exchange risks arising from the green bond issuance.

Investment Activities

Interest Income from Banks

The Bank's interest income generated from its treasury portfolio amounted to USD 113.2 million for the 2018 financial year, compared to USD 63.7 million earned in 2017. The 78% interest income increase of USD 49.5 million was driven by increase in yields on investments and the investment of USD 1.2 billion paid-in capital received during the year.

Investment Portfolio

As at December 31, 2018, the net investment portfolio totalled USD 4.8 billion (CY2017: USD 4.0 billion). The year-on-year growth of the portfolio value is lower than the USD 1.2 billion paid-in capital received for the year due to the payment of USD 600.7 million in loan disbursements.

The Bank places investments with highly rated counterparty banks in Mainland China, Hong Kong and Singapore and maintains a sufficient level of liquidity to meet anticipated cash flow requirements.

BORROWING ACTIVITIES

As at December 31, 2018, the borrowing portfolio, consisting of the green bond, totalled USD 443.8 million; a marginal decrease compared to the 2017 financial year's value of USD 449.4 million. This decrease can be attributed to changes in market conditions, including year-on-year exchange rate fluctuations, which affect the green bond as it is measured at fair value. For the year ended December 31, 2018, the proceeds of the RMB 3.0 billion (USD 436.0 million) green bond had been used to fund disbursements related to five green projects compared to the RMB 80.8 million disbursed in 2017 (USD 12.4 million) related to one green project.

Based on the demand from its member countries for local currency financing, the Bank is continuing its work to register local bond programmes in each of the BRICS countries[1] .

EQUITY/CAPITAL CONTRIBUTIONS

As at December 31, 2018, paid-in capital had been received in accordance with the schedule in the AoA and future instalments had been paid in advance. Total paid-in capital received amounted to USD 5.0 billion relating to instalments one to four (with Russia having paid its fifth contribution in advance of USD 300.0 million). The Bank will ensure these contributions are utilised to support bankable projects and the development agendas within each member country.

Members' contributions received to date

USD m	Cumulative paid-in capital due by January 3, 2018[2]	Cumulative paid-in capital received as at December 31, 2018	Difference	Notes
Brazil	**700**	1,000	300	1
Russia	**700**	1,300	600	2
India	**700**	700	–	
China	**700**	1,000	300	1
South Africa	**700**	991	291	3
Total	**3,500**	**4,991**	**1,491**	

Notes
1. Fourth instalment of USD 300.0 million, due January 3, 2019, received in advance.
2. Fourth and fifth instalment of USD 300.0 million each, due by January 3, 2019 and January 3, 2020 respectively, received in advance.
3. Fourth instalment of USD 300 million, due January 3, 2019, received in advance less USD 9 million related to a ZAR to USD foreign exchange translation difference. The USD 9 million was received on February 20, 2019.

1 On January 9, 2019, the Bank registered a RMB 10 billion bond in the China interbank bond market and successfully placed RMB 3 billion on February 25, 2019 in this market.
2 USD 700.0 million is the sum of the first three instalments per member country according to AoA.

SECTION IV
RISK MANAGEMENT

Risk Governance

The Bank is exposed to a variety of financial risks, namely: credit risk, liquidity risk, operational risk and market risk, which includes exchange rate risk and interest rate risk. In order to safeguard its capital base, the Bank has established various risk management policies, approved by the BoD, which are designed to identify and analyse risks of different types and to set up appropriate risk limits and controls.

The primary responsibility for risk management at an operational level rests with Senior Management. Senior 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, guidelines and procedures approved by designated committees.

Capital Adequacy

Capital is important to the Bank as it is a permanent source of funding for operations and growth and it provides a buffer to absorb losses. Capital not only reduces the risk of insolvency but enables the Bank to continue conducting its business in times of stress and also reduces the effects of financial and economic downturn. Thus, the Bank monitors the capital adequacy within a capital management framework and policies approved by the BoD.

Capital adequacy ratios

As at December 31	Metric	2018	2017
Equity to Assets	%	**92**	89
Limitations on Operations	%	**21**	21
Leverage Ratio	Times	**0.09**	0.12

Equity-to-Asset Ratio

The Equity-to-Asset ratio serves as a key capital metric for the Bank from an operational perspective. The absolute minimum level is set at 25%; however, the Bank sets 30% as the early warning indicator.

The Equity-to-Asset ratio as at December 31, 2018 is 92% (CY2017: 89%); well above the limit of 25%.

The increase in the ratio relates to an increase in equity which exceeded the application of equity for loan disbursements. As the Bank begins to reach steady state, this ratio will stabilise above the limit.

Limitations on Operations

The limitations on ordinary operations ratio is 21% for 2018, which is well within the Bank's limit level and has not fluctuated since 2017.

Leverage Ratio

The leverage ratio of 0.09 times (CY2017: 0.12 times), is in compliance with the Bank's policy and is very conservative, as a result of the green bond debt of RMB 3.0 billion (USD 436.0 million equivalent) versus the paid-in capital of USD 5.0 billion. This ratio will increase as the Bank increases its funding through debt.

INTEREST RATE RISK

The Bank's interest rate risk management strategy is to minimise mismatches of structure and tenor of interest rate sensitive assets and liabilities by adopting a match-funding principle, complemented by duration gap analysis, interest rate repricing gap analysis and scenario analysis.

Interest rate risk arises principally from the following two aspects:

– 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 income to variable interest rates and rate repricing schedules.

EXCHANGE RATE RISK

NDB manages exchange rate risk in its assets and liabilities in currencies other than USD, by using derivatives to reduce the unwanted residual net exposure to any currency.

The Bank measures the net open position of aggregated non-USD currencies against a limit of USD 20 million. As at the end of 2018, the net aggregate exposure was USD 0.2 million or 1.0% of the limit (CY2017: USD 0.1 million or 0.5% of the limit).

In the forthcoming period, the Bank will register bond programmes in the domestic and offshore markets and currencies of its member countries in order to raise domestic currency and USD debt for application to local projects.

LIQUIDITY RISK

The Bank maintains an extremely strong liquidity position both in the short and long term.

Expected USD cash outflows relating to project loan disbursements in the period following the 2018 financial year end were sufficiently covered by scheduled cash inflows from maturing deposits.

The Bank is characterised by conservative compliance with its targeted liquidity ratios, reflecting the high level of short-term deposits. As at the end of the 2018 financial year, the weighted average maturity of 0.4 years is shorter than the maturity at the end of the previous reporting period of 0.6.

Liquidity ratios

As at December 31	Ratio	2018	2017
Liquidity Ratio (30-day)	%	**4,719**	2,863
Liquidity Ratio (90-day)	%	**774**	1,695
Overall Liquidity Ratio	%	**626**	1,148

All liquidity ratios have been well above the Bank's target and limit levels. This is characteristic of the predominantly short-term nature of deposits and of the future disbursements that are expected to be moderate. The year-on-year decrease in the 90-day and overall liquidity ratios signals a positive trend that is indicative of the Bank's increase in forecasted disbursements, which will also result in these ratios moderating in the future.

CREDIT RISK

Sovereign and Non-Sovereign Credit Risk Measurement

To measure sovereign credit risk, the Bank uses a combination of credit risk data from rating agencies and its own internal credit risk rating, which is based on both financial and non-financial factors. During the course of the 2018 year, Brazil was downgraded by S&P and Fitch in January and February respectively. Moody's upgraded the ratings of Brazil, South Africa and Russia with the latter also being upgraded by S&P. As at December 31, 2018, the Weighted Average Risk Rating (WARR) of the sovereign loan portfolio was unchanged from 2017 and remained within the investment grade band at a rating of A-, a WARR that is the highest amongst the Bank's MDB peers.

Total approved sovereign loans by country

As at December 31	2018		2017	
USD m	Approved Sovereign Loans	WARR	Approved Sovereign Loans	WARR
Member Country				
Brazil	**121**	**BB**	–	–
Russia	**1,069**	**BBB-**	529	BBB-
India[2]	**2,550**	**BBB**	1,415	BBB
China	**2,758**	**A+**	895	A+
South Africa	**180**	**BBB-**	180	BBB-
Total Approved Sovereign Loans	**6,678**	**A-**	**3,019**	**A-**

To measure non-sovereign credit risk, the Bank uses a combination of credit risk data from rating agencies and its own internal credit risk rating, which is based on both financial and non-financial factors. As at December 31, 2018, the WARR of the non-sovereign loan portfolio was investment grade BBB- (CY2017: BB+).

Total approved non-sovereign loans by country

As at December 31	2018		2017	
USD m	Approved Sovereign Loans	WARR	Approved Sovereign Loans	WARR
Member Country				
Brazil	**500**	**BB**	300	BB
Russia	**400**	**BBB**	100	BBB+
South Africa	**500**	**BBB-**	–	–
Loans	**1,400**	**BBB-**	400	BB+

2 Includes the USD 250.0 million loan to Canara Bank for its Renewable Energy Financing Scheme, approved in 2016 and cancelled in 2018.

The non-sovereign loan portfolio WARR for 2018 is higher compared to 2017 due to greater country diversification. Given the developing and emerging nature of these projects and the absence of a sovereign-backed guarantee, the ratings are expected to be lower than sovereign-guaranteed loans. For the 2018 financial year, the non-sovereign portfolio consists of approved loans to national financial institutions (CY2018: USD 700.0 million; CY2017: 400.0 million) and private sector (CY2018: USD 700.0 million). Loans to the private sector were approved for the first time in 2018 and the portfolio is expected to continue growing in 2019.

Risk Analysis of Total Loan Portfolio
Total approved loans by country

As at December 31	2018		2017	
USD m	Total Approved Loans	WARR	Total Approved Loans	WARR
Country				
Brazil	**621**	**BB**	300	BB
Russia	**1,469**	**BBB-**	629	BBB-
India [1]	**2,550**	**BBB**	1,415	BBB
China	**2,758**	**A+**	895	A+
South Africa	**680**	**BBB-**	180	BBB-
Total Approved Loans	**8,078**	**BBB+**	**3,419**	**A-**

The WARR of the total loan portfolio for the 2018 financial year remains within investment grade at BBB+; a slight decrease from the previous year's rating of A-, which was driven by the change of composition of total approved loans for the year. As at the end of the 2018 financial year, no loan or group of loans had been put onto the watch list.

OPERATIONAL RISK

Operational risk is defined as the risk of financial loss or damage to NDB's reputation resulting from inadequate or failed internal processes, people and systems or from external events.

The Bank recognises the importance of operational risk management activities and has set up an operational risk management framework. This comprises of governance structures, policies, processes and systems used to identify, measure, monitor, control and mitigate operational risk. NDB's approach includes self assessments, loss data management and periodic monitoring and reporting of key risk indicators. The Bank is currently following a basic indicator approach for the computation of operational risk capital charge.

TREASURY BUSINESS CREDIT RISK MANAGEMENT

Deposit Counterparties

As at December 31, 2018, no breaches of treasury credit limits (concentration limits and counterparty limits) had been observed nor had there been any cancelled or amended transactions.

The credit quality of the Bank's investment portfolio for 2018 (USD 4.8 billion; CY2017: USD 4.0 billion) remained concentrated in the upper end of the credit spectrum as all deposit counterparties are highly rated banks in mainland China, Hong Kong and Singapore with ratings no lower than A-.

1 Includes the USD 250.0 million loan to Canara Bank for its Renewable Energy Financing Scheme, approved in 2016 and cancelled in 2018.

Annual financial statements

NDB: FOR THE YEAR ENDED DECEMBER 31, 2018

RESPONSIBILITY FOR EXTERNAL FINANCIAL REPORTING

Senior Management's Responsibility

NDB's Senior Management is responsible for the preparation, integrity and fair presentation of the annual financial statements and all other information presented in the 2018 Annual Report. The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) 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 control over external financial reporting for financial presentations, in conformity with IFRS. The ARC Committee assists the BoD 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 Senior 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 **64** and **65**.

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 December 31, 2018 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 December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Other Information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Board of Governors for the Financial Statements

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement 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 of the Bank.

- 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, amongst 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 CPA LLP

Deloitte Touche Tohmatsu

Certified Public Accountants LLP
Shanghai, PRC

April 1, 2019

Statement of Profit or Loss and other Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of USD	Notes	Year ended December 31, 2018	Year ended December 31, 2017
Interest income	7	**123,400**	63,863
Interest expense	7	**(13,597)**	(14,020)
Net interest income	7	**109,803**	49,843
Net fee income	8	**418**	21
Net gains on financial instruments at fair value through profit or loss	9	**7,809**	1,291
		118,030	**51,155**
Other Income		**–**	74
Staff costs	10	**(25,310)**	(18,823)
Other operating expenses	11	**(11,936)**	(7,342)
Impairment provision	5	**(3,758)**	(23)
Foreign exchange (losses)/gains		**(4,989)**	5,811
Operating profit for the year		**72,037**	**30,852**
Unwinding of interest on paid-in capital receivables		**93,822**	127,160
Profit for the year		**165,859**	**158,012**
Total comprehensive income for the year		**165,859**	**158,012**

Statement of Financial Position

AS AT DECEMBER 31, 2018

Expressed in thousands of USD	Notes	As at December 31, 2018	As at December 31, 2017
Assets			
Cash and cash equivalents	12	**122,988**	1,019,854
Due from banks other than cash and cash equivalents	13	**4,800,559**	3,245,623
Loans and advances	14	**628,104**	23,997
Paid-in capital receivables	15	**4,846,783**	5,933,354
Property and equipment	16	**1,205**	594
Intangible assets	17	**931**	54
Derivative financial assets	18	**710**	–
Other assets	19	**1,133**	642
Total assets		**10,402,413**	**10,224,118**
Liabilities			
Derivative financial liabilities	18	**6,374**	3,331
Financial liabilities designated at fair value through profit or loss	20	**443,809**	449,367
Other liabilities	21	**7,367**	2,811
Total liabilities		**457,550**	**455,509**
Equity			
Paid-in capital	22	**10,000,000**	10,000,000
Other reserve	23	**(162,429)**	(266,646)
Retained earnings		**107,292**	35,255
Total equity		**9,944,863**	**9,768,609**
Total equity and liabilities		**10,402,413**	**10,224,118**

The annual financial statements on pages 66 to 102 were approved and authorised for issue by the Board of Governors on April 1, 2019 and signed on their behalf by:

PRESIDENT **CHIEF FINANCIAL OFFICER**

Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of USD	Paid-in capital	Other reserves	Retained earnings	Total
As at January 1, 2018	10,000,000	(266,646)	35,255	**9,768,609**
Operating profit for the year	–	–	72,037	**72,037**
Unwinding of interest on paid-in capital receivables for the year	–	–	93,822	**93,822**
Total comprehensive income for the year	–	–	165,859	**165,859**
Impact of early payment on paid-in capital receivables (Note 15)	–	10,395	–	**10,395**
Reclassification of unwinding of interest arising from paid-in capital receivables	–	93,822	(93,822)	**–**
As at December 31, 2018	**10,000,000**	**(162,429)**	**107,292**	**9,944,863**

Expressed in thousands of USD	Paid-in capital	Other reserves	Retained earnings	Total
As at January 1, 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 December 31, 2017	**10,000,000**	**(266,646)**	**35,255**	**9,768,609**

Statement of Cash Flows

FOR THE YEAR ENDED DECEMBER 31, 2018

Expressed in thousands of USD	Year ended December 31, 2018	Year ended December 31, 2017
Operating activities		
Profit for the year	**165,859**	158,012
Adjustments for:		
Interest expense	**13,597**	14,020
Depreciation and amortisation	**229**	102
Unrealised (gains)/losses on financial instruments	**(2,912)**	5,245
Unwinding of interest on paid-in capital receivables	**(93,822)**	(127,160)
Impairment provisions for loans and commitments	**3,758**	23
Operating cash flows before changes in operating assets and liabilities	**86,709**	**50,242**
Net increase in due from banks other than cash and cash equivalents	**(1,554,936)**	(941,526)
Net increase in loans and advances	**(604,228)**	(22,929)
Net increase in other assets	**(491)**	(398)
Net increase in other liabilities	**919**	485
Interest paid	**(13,910)**	(13,600)
Net cash used in operating activities	**(2,085,937)**	**(927,726)**
Investing activities		
Purchase of property and equipment and intangible assets	**(1,717)**	(236)
Net cash used in investing activities	**(1,717)**	**(236)**
Financing activities		
Paid-in capital received	**1,190,788**	1,600,000
Proceeds from short-term borrowings	**13,000**	–
Repayment of short-term borrowings	**(13,000)**	–
Net cash provided by financing activities	**1,190,788**	**1,600,000**
Net (decrease)/ increase in cash and cash equivalents	**(896,866)**	**672,038**
Cash and cash equivalents at the beginning of the year	**1,019,854**	**347,816**
Cash and cash equivalents at the end of the year	**122,988**	**1,019,854**

Notes to the Annual Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2018

1. GENERAL INFORMATION

The New Development Bank was established on the signing of the Agreement on the New Development Bank (the Agreement) on July 15, 2014 by the Government of the Federative Republic of Brazil (Brazil), the Russian Federation (Russia), the Republic of India (India), the People's Republic of China (China) and the Republic of South Africa (South Africa) (collectively the BRICS Countries or Founding Members). The Agreement took effect on July 3, 2015 according to the notification endorsed by Brazil in its capacity as depositary. The headquarters of the Bank is located in Shanghai, China. On August 17, 2017, the Bank officially opened the Africa Regional Centre (ARC), in Johannesburg, which is the first regional office of the Bank.

According to the Agreement, the initial authorised capital of the Bank is United States Dollar (USD) 100 billion and the initial subscribed capital of the Bank is USD 50 billion. Each founding member shall initially subscribe for 100,000 shares, 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 USD in 7 instalments, pursuant to the Agreement.

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

As at December 31, 2018, the Bank had 128 (December 31, 2017: 89) employees including the President and 4 (December 31, 2017: 4) Vice-Presidents. In addition, there were 16 (December 31, 2017: 17) consultants/secondees appointed by the Bank on a short-term basis.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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:

IFRIC 22 - FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Bank is required to determine the date of transaction for each payment or receipt of advance consideration. The application of this interpretation has had no significant impact on the amounts reported and/or disclosures set out in these 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 become effective:

IFRS 16	Leases[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]

1 Effective for annual periods beginning on or after 1 January 2019.

IFRS 16 LEASES

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

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS – continued

IFRS 16 LEASES – continued

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

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

Other than certain requirements which are also applicable to lessor, 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.

As at December 31, 2018, the Bank had non-cancellable operating lease commitments of USD 252 thousand as disclosed in Note 25. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, whereby the Bank will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless the lease qualifies for low value or short-term leases upon the application of IFRS 16. Furthermore, extensive disclosures are required by IFRS 16.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Bank anticipates that the application of IFRS 16 is unlikely to have a significant impact on the Bank's annual financial statements.

The Bank intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4, Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Bank will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Bank intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

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

The annual financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, and in accordance with the accounting policies set out below which are in conformity with IFRSs. These policies have been consistently applied throughout the year.

Historical cost is generally based on the fair value of the consideration given in exchange of goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability, if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 Impairment of Assets.

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

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

REVENUE

Under IFRS 15, the Bank recognises revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
- the Bank's performance creates and enhances an asset that the customer controls as the Bank performs; or
- the Bank's performance does not create an asset with an alternative use to the Bank and the Bank has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

For contracts that contain variable consideration, the Bank estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Bank will be entitled to.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Bank updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

REVENUE – continued

NET INTEREST INCOME

Interest income is recognised in profit or loss for interest-bearing financial instruments 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 instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (but does not consider future credit losses). The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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 when they satisfy the performance obligation, and subsequently amortised over the period of the contract.

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 the property and equipment if it is probable that economic benefits associated with the asset will flow to the Bank and the subsequent expenditure can be measured reliably. Costs relating to repairs and maintenance are recognised in profit or loss, in the period in which they incurred.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

The estimated residual value rates and useful lives of each class of property and equipment are as follows:

Classes	Estimated residual value rates	Useful lives
IT equipment	0%	5 years
Appliance	0%	5 years
Furniture	0%	5 years
Vehicle	20%	4-7 years
Others	0%	5 years

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

INTANGIBLE ASSETS

Intangible assets acquired separately and with finite useful lives are subsequently measured at costs less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis, over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each reporting period, with any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

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

IT software	3 - 5 years

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. When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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 cash and cash equivalents, deposits due from banks, loans and advances, paid-in capital receivables, derivative financial assets/liabilities and bonds designated at Fair Value Through Profit or Loss (FVTPL).

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

FINANCIAL INSTRUMENTS – continued

INITIAL RECOGNITION AND MEASUREMENT – continued

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 except for trade receivables from IFRS 15. 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 or issue of the financial assets or financial liabilities.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

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

- Financial assets at FVTPL;
- Financial assets measured at amortised cost; and
- Financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI).

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

Financial assets at FVTPL

A financial asset shall be measured at FVTPL unless it is measured at amortised cost or at FVTOCI. Upon initial recognition, financial instruments may be designated at FVTPL. A financial asset may only be designated at 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 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.

The Bank applies the effective interest method to the amortised costs of a financial asset.

Financial assets measured at FVTOCI

The Bank classifies debt instruments at FVTOCI 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 assets, and that have contractual cash flows that are SPPI.

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

FINANCIAL INSTRUMENTS – continued

CLASSIFICATION OF FINANCIAL INSTRUMENTS – continued

FINANCIAL LIABILITIES AND EQUITY

A financial liability is a 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 its 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:
- 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 FVTPL if:
- It eliminates or significantly reduces an accounting mismatch that would otherwise arise; or
- It forms part of a contract containing one or more embedded derivatives which meet certain conditions; or
- 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 bonds 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. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. For details on effective interest rate, refer to the net interest income section above.

DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into a variety of derivative financial instruments 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 18.

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

FINANCIAL INSTRUMENTS – continued

IMPAIRMENT

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

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

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

i) Stage 1: 12-month ECL

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

ii) Stage 2: Lifetime ECL – not credit impaired

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

iii) Stage 3: Lifetime ECL – credit impaired

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

Refer to Note 5 for the disclosure regarding significant increases in credit risk, definition of default and credit-impaired financial assets.

MEASUREMENT OF ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive, discounted at the effective interest rate determined at initial recognition.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the loan commitments draws down the loan, and the cash flows that the Bank expects to receive if the loan is drawn down.

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 expire. The difference between the carrying amount of the financial instruments derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

FINANCIAL INSTRUMENTS – continued

OFFSETTING

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Bank has a legal right to offset the amounts and intends to settle on a net basis or to realise the assets and settle the liability simultaneously.

EMPLOYEE BENEFITS

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

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

PAID-IN CAPITAL

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

Where shares have been issued on terms that provide the Bank rights to receive cash or another financial asset, on a specified future date, the Bank recognises the financial asset at the fair value of the amount of receivable.

TAXATION

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

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

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.

LEASES

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 A LESSEE

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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 USD. In preparing the annual financial statements of the Bank, transactions in currencies other than the Bank's functional currency (USD) 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 re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated after initial recognition.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are recognised in profit or loss in the period in which they arise.

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 AT FVTPL

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 FVTPL. The valuation models are based on underlying observable market data and market accepted valuation techniques.

The Bank's analysis and method for determining the fair value of financial liabilities designated at fair value have been provided in Note 6.

DISCOUNTING OF PAID-IN CAPITAL RECEIVABLES

The discounted cash flow model is used by the Bank to calculate the present value of paid-in capital receivables at initial recognition. In determining the discount rate of paid-in capital receivables, the Bank took into account various factors including the funding cost of similar instruments issued by similar institutions, instrument-specific risk profile. The cost of alternative funding sources of the Bank has been taken into consideration by referring to the Bank's credit rating and general market rates. 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;
- Choosing an appropriate model and determining appropriate assumptions for the measurement of ECL; and
- Establishing the number and probability of forward-looking scenarios for each type of product.

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

5. FINANCIAL RISK MANAGEMENT

OVERVIEW

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

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

The primary responsibility for risk management at an operational level rests with the management of the Bank. 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.

5. FINANCIAL RISK MANAGEMENT – continued

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 fulfil this purpose. Any possibility of the inability or unwillingness of borrowers or obligors to meet their financial obligation with the Bank leads to credit risk.

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

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

The Bank mainly relies on external credit ratings from major international rating agencies (e.g. Moody's, Standard and Poor's and Fitch) to provide an initial assessment of the credit quality of borrowers and treasury counterparties. 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.

For loans without a sovereign guarantee, the Bank will in due course use an internal credit rating taking into account specific project, sector, macro and country credit risks. The risk division of the Bank monitors the overall credit risk profile of the Bank on a periodic basis. 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 ratings of AAA to A- from global rating agencies or the Bank's internal credit rating.
- Investment grade: broadly corresponds with ratings of BBB+ to BBB- from global rating agencies or the Bank's internal credit rating.
- Sub-investment grade: broadly corresponds with ratings of BB+ up to but not including defaulted or impaired.

ECL MEASUREMENT

As disclosed in Note 3, the Bank applies a three-stage model for impairment based on changes in credit quality since initial recognition. A new ECL calculation tool (Moody's model) has been used for the year ended December 31, 2018.

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 and quantitative criteria have been met.

QUANTITATIVE CRITERIA:

- Delay in interest or principal payment exceeds 30 days;
- For investment grade loans, rating downgrade to non-investment grade; or
- For non-investment grade loans, rating downgrade by 2 notches compared to the rating at initial recognition.

QUALITATIVE CRITERIA:

- History of arrears within 12 months;
- Cross default is activated;
- Material regulatory action against the 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.

5. FINANCIAL RISK MANAGEMENT – continued

CREDIT RISK – continued

CREDIT-IMPAIRED FINANCIAL ASSETS – continued

The impairment allowance is calculated on a 12-month basis for assets without a significant increase in credit risk or on a lifetime basis for assets with a significant increase in credit risk. 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.

12-MONTH ECL MEASUREMENT

Estimation of 12-month ECL is calculated using the following formula for a given scenario:

$$12\text{m ECL} = \sum_{t=1}^{12m} PD_t \times LGD_t \times EAD_t \times DF_t$$

Unconditional Point-in-time Probability of Default (PIT-PD) is derived based on the latest Standard and Poor's observed default rate for sovereign exposures, or Moody's model considering a specific rating and country and industry information for non-sovereign exposures, which is then conditioned on three future macro-economic scenarios:

- baseline, optimistic and pessimistic;
- Loss Given Default (LGD) for the current financial year the LGD is set at 30% for sovereign loans and at 75% for non-sovereign loans;
- Exposure at Default (EAD) includes the sum of loans disbursed, interest receivable and net projected disbursement schedule over the next 12 months; and
- Discount rate is equal to the effective interest rate.

LIFETIME ECL MEASUREMENT

Estimation of lifetime ECL is calculated using the following formula for a given scenario:

$$\text{Lifetime ECL} = \sum_{t=1}^{\text{Lifetime}} PD_t \times LGD_t \times EAD_t \times DF_t$$

- The process to determine the PIT-PD term structure is the same as 12-month ECL calculation for the first 5 years and PIT-PD is assumed to revert back to the long-run PD for the remaining years;
- LGD is the same as the calculation used for the 12-month ECL measurement purposes;
- EAD for any given year is based on the sum of loan disbursed, interest receivable and net projected disbursement schedule for each following year;
- Discount rate is equal to the effective interest rate; and
- Lifetime of the loan is the remaining loan contract period.

Forward-looking information incorporated in ECL

MACRO SCENARIO DEVELOPMENT

(i) 3 macro scenarios: baseline, optimistic and pessimistic. Each scenario is forecasted for 5 years.
(ii) Based on each member country's development and conditions, a range of forward-looking macro-economic information is considered.
(iii) Choice of macro scenarios and probability weightings of each scenario is approved by the Finance Committee.

$$\text{Weighted Average ECL} = \sum_{\text{Scenarios}} \text{Weight}_{\text{Scenario}} \times \text{ECL}_{\text{Scenario}}$$

The baseline, optimistic and pessimistic scenarios were given weightings of 50%, 25% and 25% respectively. The estimation is based on the best representative management judgment without undue cost or effort that, going forward the current path of macro-economic projections with an equal chance of being worse (pessimistic scenario) or better (optimistic scenario).

5. FINANCIAL RISK MANAGEMENT – continued

CREDIT RISK – continued

SENSITIVITY ANALYSIS

The weights of the scenarios used, is another source of sensitivity. Should the Bank have changed the weightings to 25%, 45% and 30% respectively for optimistic, baseline and pessimistic scenarios, the amount of ECL would have been USD 4 million or increased by USD 0.2 million.

DEFINITION OF DEFAULT

For the ECL measurement, default occurs when a borrower meets one or more of the following conditions:
- Failure to make a payment within 90 days.
- Breach of specific covenants that trigger a default clause.
- Failure to pay a final judgement or court order.
- Bankruptcy, liquidation or the appointment of a receiver or any similar official.

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 counterparties:

CREDIT EXPOSURE ON LOAN FACILITIES

As at December 31, 2018	Maximum facility USD'000	Effective facility USD'000	Utilised USD'000	Unutilised loan commitments USD'000
Senior investment grade	1,507,559	1,507,559	120,053	1,387,506
Investment grade	2,550,000	960,000	164,515	795,485
Sub-investment grade	500,000	500,000	340,000	160,000
Total	**4,557,559**	**2,967,559**	**624,568**	**2,342,991**
Interest Receivable			6,191	–
Less: Provision for loan and commitment			(2,655)	(1,126)
Carrying amount as at December 31, 2018			**628,104**	**2,341,865**

The PD associated with loan facilities for the next 12 months is between 0% to 1% at the dates of signing of loans agreements and as at December 31, 2018. There has been no significant increase in credit risk up to December 31, 2018 and all the loans are at stage 1.

As at December 31, 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**
Interest Receivable			140	–
Less: Provision for loan and commitment			–	(23)
Carrying amount as at December 31, 2017			**23,997**	**1,321,522**

The PD associated with the above loan facilities for the next 12 months is between 0% to 1% at the dates of signing of loans agreements and as at December 31, 2017. There was no significant increase in credit risk up to December 31, 2017 and all the loans were at stage 1.

5. FINANCIAL RISK MANAGEMENT – continued

CREDIT RISK – continued

CREDIT EXPOSURE ON LOAN FACILITIES – continued

Reconciliation of provision for loans raised

	12-month Expected Credit Loss As at December 31, 2018 USD'000	12-month Expected Credit Loss As at December 31, 2017 USD'000
Provision at the beginning of the year	**–**	–
Provision for loan raised	**2,655**	–
Provision at the end of the year	**2,655**	–

Reconciliation of provision for loan commitment

	12-month Expected Credit Loss As at December 31, 2018 USD'000	12-month Expected Credit Loss As at December 31,2017 USD'000
Provision at the beginning of the year	**23**	–
Provision for loan commitment raised	**1,103**	23
Provision at the end of the year	**1,126**	23

CONCENTRATION RISK

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

As at December 31, 2018	Effective facility USD'000	Utilised USD'000	Unutilised loan commitments USD'000
China	1,457,559	94,928	1,362,631
Brazil	500,000	340,000	160,000
India	450,000	139,390	310,610
Russia	560,000	50,250	509,750
Total	**2,967,559**	**624,568**	**2,342,991**
Interest Receivable		6,191	–
Less: Provision for loan and commitment		(2,655)	(1,126)
Carrying amount as at December 31, 2018		**628,104**	**2,341,865**

As at December 31, 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**
Interest Receivable		140	–
Less: Provision for loans and commitments		–	(23)
Carrying amount as at December 31, 2017		**23,997**	**1,321,522**

5. FINANCIAL RISK MANAGEMENT – continued

CREDIT RISK – continued

CREDIT EXPOSURE ON DEPOSITS

The Bank had deposits with commercial 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 are analysed as below:

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Cash and cash equivalents		
Senior investment grade	**122,976**	1,019,848
Due from banks other than cash and cash equivalents		
Senior investment grade	**4,800,559**	3,245,623
Total	**4,923,535**	4,265,471

There has been no significant increase in credit risk since initial recognition associated with the amounts due from banks and loans and advances, for the year ended December 31, 2018 and 2017. The credit exposure on Cash and cash equivalents excludes cash on hand.

CREDIT RISK ON PAID-IN CAPITAL RECEIVABLES

The paid-in capital receivable relates to capital contributions instalments committed by the Founding Members. No member has defaulted on payments therefore, in the opinion of the management of the Bank, is unlikely to incur any related credit risk associated with the capital receivables.

CREDIT RISK ON DERIVATIVES

The Bank has entered into derivative transactions 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 ratings in mainland China and Hong Kong and entered into International Swaps and Derivatives Association (ISDA) agreements with these counterparties. Under the ISDA master agreement, if a counterparty defaults, 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 favourable to the Bank.

LIQUIDITY RISK

The Bank's liquidity risk arises in the following way:

(i) Insufficient liquidity to settle obligations or to meet cash flow needs including, but not limited to, the inability to maintain normal lending operations via loan disbursements and other payment obligations; and
(ii) Inability to liquidate an investment within the required period of time without undue loss of value.

The Bank utilises a set of short-term, long-term and stressed metrics for identifying, monitoring and managing liquidity risk. The Bank balances the placement and tenor of its liquid assets to optimise interest income and provide a source of liquidity for strategic and day-to-day cash needs, as well as meeting unanticipated funding requirements. The Bank has funding lines with local and offshore banks to cover short-term flows. For strategic funding requirements, the Bank has established and is developing arrangements to issue debt securities in its member countries and in other major global markets.

The Bank monitors liquidity risk through liquidity risk ratios and indicators, as prescribed in the liquidity risk management policy of the Bank. The ratios are cast as short-term ratios and longer-term ratios that determine the availability of liabilities to fund cash demands. The primary liquidity ratio is based on the 12-month availability of naturally-maturing and easily-disposable assets to meet projected net cash requirements, known as the Prudential Minimum Liquidity (PML) level.

The following table represents the cash flows associated with financial assets and financial liabilities according to their contractual maturity as at the end of the reporting period. The balances in the table do not correspond with the statement of financial position, since liquidity risk management measures cash flows on an undiscounted basis and the figures therefore include both principal and associated future interest payments.

5. FINANCIAL RISK MANAGEMENT – continued

LIQUIDITY RISK – continued

As at December 31, 2018	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	97,313	25,887	–	–	–	–	123,200
Due from banks	–	976,111	787,657	2,806,774	316,137	–	4,886,679
Loans and advances	–	–	11,620	13,932	264,008	537,255	826,815
Paid-in capital receivables	–	300,000	9,212	–	4,700,000		5,009,212
Other financial assets	271	–	–	–	–	–	271
Financial liabilities designated at FVTPL	–	–	–	(13,375)	(459,738)	–	(473,113)
Other financial liabilities	(1,275)	–	–	–	–	–	(1,275)
Sub-total	**96,309**	**1,301,998**	**808,489**	**2,807,331**	**4,820,407**	**537,255**	**10,371,789**
Derivatives							
Net setting derivatives							
interest rate swap – cash inflow	–	–	–	2,001	4,007	–	6,008
interest rate swap – cash outflow	–	(598)	–	(1,433)	(3,172)	–	(5,203)
Gross setting derivatives							
Cross currency swap – cash inflow	–	–	–	10,674	368,399	–	379,073
Cross currency swap – cash outflow	–	(4,163)	–	(4,794)	(376,880)	–	(385,837)
Sub-total	**–**	**(4,761)**	**–**	**6,448**	**(7,646)**	**–**	**(5,959)**
Net	**96,309**	**1,297,237**	**808,489**	**2,813,779**	**4,812,761**	**537,255**	**10,365,830**

As at December 31, 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 setting 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 setting 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**

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

5. FINANCIAL RISK MANAGEMENT – continued

MARKET RISK
Market risk is the risk that variations in market rates and values of the Bank's assets, liabilities and off-balance sheet positions result in a loss to the Bank. The Bank's exposure to market risk is currently derived from interest rate risks and exchange rate risks that emanate from the Bank's operations. In order to mitigate market risks, the Treasury and Portfolio Management division of the Bank exercise control over funding, 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 expose the Bank to interest rate risk, whilst changes in the macro-economic environment significantly impact the movement of interest rate curves in different currencies to which the Bank is exposed.

The Bank has limited tolerance for interest rate risk. The primary strategy for managing interest rate risk is to match the interest rate sensitivity of the Bank's liabilities and assets in individual currencies.

Interest rate risk arises principally from the basis, volatility and rate adjustment dates associated with the rates the Bank is exposed to. Accordingly, interest rate risk management aims to minimise mismatches of structure and tenor of interest rate sensitive assets and liabilities 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 gap below an approved limit by generating a stable overall positive net interest margin that is not unduly sensitive to sharp changes in market interest rates, but adequately responsive to general market trends.

INTEREST RATE SENSITIVITY ANALYSIS
Net Interest Income (NII) sensitivity analysis utilises projected earnings simulations to forecast, measure and manage interest rate risk.

The sensitivity analysis is prepared assuming a static year-long balance sheet for which the interest-bearing financial assets and liabilities outstanding at the end of each respective reporting period is constant for the whole year.

When reporting to the management of the Bank on the interest rate risk, a 25-basis points increase or decrease in the relevant interest rates will be adopted for sensitivity analysis. The impact of a change in interest rates on the reporting period is shown below.

	Impact on profit	
	Year ended December 31, 2018 USD'000	Year ended December 31, 2017 USD'000
+ 25 basis points	**7,959**	4,952
- 25 basis points	**(7,959)**	(4,952)

EXCHANGE RATE RISK
Exchange rate risk at the Bank arises from the impact of exchange rate variations on net unhedged positions in non-USD currencies. The Bank aims to reduce or limit exposure to exchange rate risk, while optimising its capacity to extend credit to clients. The Bank uses currency-linked derivative contracts to align the currency composition of its financial position. Exchange rate risk is measured using a net exposure limit in aggregate and individual non-USD currencies, as well as through value-at-risk in exchange rates.

EXCHANGE RATE SENSITIVITY ANALYSIS
The following table shows the impact of an appreciation or depreciation of USD against foreign currencies as at December 31, 2018 and December 31, 2017 assuming that all other variables remain constant.

	Impact on profit	
	Year ended December 31, 2018 USD'000	Year ended December 31, 2017 USD'000
10% appreciation	**(35)**	46
10% depreciation	**35**	(46)

5. FINANCIAL RISK MANAGEMENT – continued

CAPITAL MANAGEMENT

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

The Bank sets early warning indicators for the pillars (95% for Limitation on Operations, 30% for Equity-to-Loan Ratio, 30% for Equity-to-Asset Ratio and 85% for Capital Utilisation Ratio) and monitors the capital adequacy level on an ongoing basis. Once any of the early warning indicators are reached, contingency actions should be triggered to bring the capital adequacy level within the Bank's comfort levels.

As at December 31, 2018, 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 Agreement, an increase of the authorised and subscribed capital stock of the Bank, as well as the proportion between the paid-in shares and the callable shares may be decided by the Board of Governors at such time and under such terms and conditions as it may deem advisable, by a special majority of the Board of Governors. In such case, each member shall have a reasonable opportunity to subscribe, under the conditions established in Article 8 and under such other conditions as the Board of Governors shall decide. No member, however, shall be obligated to subscribe to any part of such increased capital. The Board of Governors shall, at intervals of not more than 5 years, review the capital stock of the Bank as per Article 7e of the Agreement.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Bank's financial instruments that are measured subsequent to initial recognition at fair value, mainly included bonds designated at fair value and the derivatives as at December 31, 2018.

The risk division of the Bank is responsible for the fair value measurement. Analysis of fair value disclosures uses a hierarchy that reflects the significant inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is classified is determined on the basis of the lowest level input that is significant to the fair value measurement. The fair value hierarchy is as below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values are based on relevant information available at the reporting date and involve judgement.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES – continued

FAIR VALUE OF THE BANK'S FINANCIAL INSTRUMENTS THAT ARE MEASURED AT FAIR VALUE ON A RECURRING BASIS

The Bank is of the opinion that there is no active market related to its bond issued, in view of the low trading volume and frequency.

The fair value estimates are based on the following methodologies and assumptions:

- The fair values of derivative assets and liabilities, including interest rate swaps and cross currency swaps are obtained from discounted cash flow models and other valuation techniques that are commonly used by market participants using observable inputs as appropriate in the market and published by reputed agencies like Bloomberg.
- The fair value of bonds designated at fair value are measured using market accepted valuation techniques. The techniques serve the purpose of tracking the value impact in respect of both interest rate and foreign exchange rate movement.

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

As at December 31, 2018	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets	–	–	–	–
Derivatives	–	710	–	710
Total financial assets measured at fair value	**–**	**710**	**–**	**710**
Financial liabilities				
Derivatives	–	6,374	–	6,374
Financial liabilities designated at fair value	–	443,809	–	443,809
Total financial liabilities measured at fair value	**–**	**450,183**	**–**	**450,183**

As at December 31, 2017	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets	–	–	–	–
Derivatives	–	–	–	–
Total financial assets measured at fair value	**–**	**–**	**–**	**–**
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**

There were no transfers between Level 1 and 2 in for the year ended December 31, 2018 and December 31, 2017.

There were no third-party credit enhancements in the fair value measurement for financial liabilities designated at fair value as at December 31, 2018 and December 31, 2017.

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 December 31, 2018 USD'000	For the year ended December 31, 2017 USD'000
Interest income		
Interest income from banks	**113,191**	63,681
Interest income from loans and advances	**10,209**	182
Total interest income	**123,400**	63,863
Interest expense		
Interest expenses of short-term borrowings	**(7)**	–
Interest expense on bonds issued	**(13,590)**	(14,020)
Total interest expense	**(13,597)**	(14,020)
Net interest income	**109,803**	49,843

8. NET FEE INCOME

	For the year ended December 31, 2018 USD'000	For the year ended December 31, 2017 USD'000
Front-end fee recognised	**155**	21
Commitment fee	**263**	–
Total	**418**	21

9. NET GAINS ON FINANCIAL INSTRUMENTS AT FVTPL

	For the year ended December 31, 2018 USD'000	For the year ended December 31, 2017 USD'000
Derivatives	**2,564**	47,174
Bonds	**5,245**	(45,883)
Total	**7,809**	1,291

10. STAFF COSTS

	For the year ended December 31, 2018 USD'000	For the year ended December 31, 2017 USD'000
Salaries and allowances	**19,400**	15,770
Other benefits	**5,910**	3,053
Total	**25,310**	18,823

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).

The charge recognised in the year ended December 31, 2018 for the SRP and PRP was USD 4 million (2017: USD 2.5 million) and USD 442 thousand (2017: USD 284 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 for the President of the Bank for the year ended December 31, 2018 and for the year ended December 31, 2017. According to Article 11 of the Agreement, the Board of Governors shall determine the salary and terms of the service contract of the President of the Bank.

11. OTHER OPERATING EXPENSES

	For the year ended December 31, 2018 USD'000	For the year ended December 31, 2017 USD'000
Office expenses	**2,737**	2,338
Professional fees	**3,448**	2,126
Auditor's remuneration	**513**	310
Travel expenses	**3,106**	2,020
Technology expenses	**1,777**	239
Hospitality expenses	**116**	101
Depreciation and amortisation	**229**	102
Others	**10**	106
Total	**11,936**	7,342

12. CASH AND CASH EQUIVALENTS

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Cash on hand	**12**	6
Demand deposit	**97,301**	256,888
Time deposit with maturity within three months	**25,675**	762,960
Total	**122,988**	1,019,854

13. DUE FROM BANKS OTHER THAN CASH AND CASH EQUIVALENTS

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Commercial banks	**4,826,234**	4,008,583
Total	**4,826,234**	4,008,583
Less: Time deposit with original maturity within three months	**(25,675)**	(762,960)
Total	**4,800,559**	3,245,623

Comparative figures for the prior year have been reclassified, refer to Note 29.

14. LOANS AND ADVANCES

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Carrying amount	**624,568**	23,857
Interest receivable	**6,191**	140
Gross Carrying Amount	**630,759**	23,997
Less: ECL allowance	**(2,655)**	–
Net carrying amount	**628,104**	23,997

Comparative figures for the prior year have been reclassified, refer to Note 29.

15. PAID-IN CAPITAL RECEIVABLES

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Balance at the beginning of year of the Agreement (Note 1 below)	**6,200,000**	7,800,000
Less:		
Instalments received during the year (Note 2 below)	**(1,190,788)**	(1,600,000)
Total nominal amounts of receivable at the end of the year (Note 4 below)	**5,009,212**	6,200,000
Less:		
Interest on paid-in capital receivables to be unwound in the future year (Note 3 below)	**(162,429)**	(266,646)
Balance at the end of the year	**4,846,783**	5,933,354

Note 1
As disclosed in Note 22, the Bank established the rights to receive the initial subscribed paid-in capital of 100,000 shares, which totalled USD 10 billion upon the effective date of the Agreement. Each founding member shall initially and equally subscribe to 20,000 shares that correspond to the paid-in capital. The payment of the amount initially subscribed to, for the paid-in capital stock of the Bank, is made in 7 instalments. The first instalment of paid-in capital was paid by each member within 6 months of the Agreement coming into force, and the second instalment was due 18 months from the date that the Agreement came into force. The remaining instalments are due successively, one year from the date on which the preceding instalment becomes due.

Note 2
The instalments received in the year ended December 31, 2018 resulted from the partial receipt of the fourth instalments and the partial receipt of the fifth instalments, ahead of schedule. The instalment received in in the year ended December 31, 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 444,286 thousand of accumulated unwinding interest already unwound on the paid-in capital receivables (December 31, 2017: USD 350,464 thousand) and USD 15,570 thousand as a result of accumulated early payment and the impact on discounting which was credited to reserve as an equity transaction by the end of December 31, 2018 (December 31, 2017: USD 5,175 thousand).

Note 4
On December 31, 2018, there were no overdue instalments of paid-in capital receivables. The total paid-in capital receivables that will become due within one year amount to an undiscounted value of USD 0.3 billion, and that will become due over one-year amount to an undiscounted value of USD 4.7 billion (December 31, 2017: USD 6.2 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 January 1, 2018	191	62	413	2	25	693
Additions during the year	762	4	–	7	–	773
Cost at December 31, 2018	**953**	**66**	**413**	**9**	**25**	**1,466**
Accumulated depreciation as at January 1, 2018	(18)	(11)	(65)	(0)	(5)	(99)
Depreciation for the year	(77)	(13)	(66)	(1)	(5)	(162)
Accumulated depreciation as at December 31, 2018	(95)	(24)	(131)	(1)	(10)	(261)
Net book value as at December 31, 2018	**858**	**42**	**282**	**8**	**15**	**1,205**

	IT Equipment USD'000	Appliance USD'000	Vehicle USD'000	Furniture USD'000	Others USD'000	Total USD'000
Cost as at January 1, 2017	65	30	360	2	25	482
Additions during the year	126	32	53	–	–	211
Cost at December 31, 2017	**191**	**62**	**413**	**2**	**25**	**693**
Accumulated depreciation as at January 1, 2017	(3)	(3)	–	(0)	–	(6)
Depreciation for the year	(15)	(8)	(65)	(0)	(5)	(93)
Accumulated depreciation as at December 31, 2017	(18)	(11)	(65)	(0)	(5)	(99)
Net book value as at December 31, 2017	**173**	**51**	**348**	**2**	**20**	**594**

17. INTANGIBLE ASSETS

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Cost		
As at the beginning of the year	**65**	40
Additions for the year	**944**	25
Cost as at the end of the year	**1,009**	65
Accumulated amortisation		
As at the beginning of the year	**(11)**	(2)
Amortisation for the year	**(67)**	(9)
As at the end of the year	**(78)**	(11)
Net book value		
As at the end of the year	**931**	54

18. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The Bank entered into derivative contracts for the bond issued, that was paired with swaps with a total notional amount of RMB 3 billion, to convert the issuance proceeds into the currency and interest rate structure sought by the Bank. Notwithstanding the purpose of achieving an economic hedge, the Bank opted not to apply hedge accounting for any derivative contracts entered into in the financial year ended December 31, 2018 and December 31, 2017.

As at December 31, 2018	Notional USD USD'000	Fair value asset USD'000	Fair value liability USD'000
Interest Rate Swap	90,132	710	–
Cross Currency Swap	359,396	–	6,374
Total	**449,528**	**710**	**6,374**

As at December 31, 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**

19. OTHER ASSETS

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Other receivables	**220**	196
Others	**913**	446
Total	**1,133**	642

Comparative figures for the prior year have been reclassified, refer to Note 29.

20. FINANCIAL LIABILITIES DESIGNATED AT FVTPL

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Bond - Principal	**448,011**	448,011
- Interest payable	**6,086**	6,399
- Fair value change	**(10,288)**	(5,043)
Total	**443,809**	449,367

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

There has been no change in fair value of bonds attributable to changes in the Bank's credit risk for the year ended December 31, 2018 and 2017. The contractual principal amount to be paid at maturity of the bond, in the original currency, is RMB 3 billion.

21. OTHER LIABILITIES

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Employee benefits payable	**308**	328
Accrued expenses	**1,275**	885
Impairment provision of loan commitment	**1,126**	23
Deferred income (Note 1 below)	**3,866**	1,055
Annual Leave provision	**792**	520
Total	**7,367**	2,811

Note 1: The deferred income disclosed above relates to contract liabilities, which is the unsatisfied performance obligations of front-end fees as at December 31, 2018 and December 31, 2017.

22. PAID-IN CAPITAL

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to, by each member, according to the Agreement, is set out in the following table. There is no amendment to the terms of subscription payment in the Agreement at December 31, 2018. The voting power of each member shall be equal to the number of its subscribed shares in the capital stock of the Bank, according to the Agreement.

	As at December 31, 2018		As at December 31, 2017	
	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

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 December 31, 2018	Total shares Number	Total capital USD'000	Callable capital USD'000	Paid-in capital USD'000	Paid-in capital[1] received USD'000	Paid-in capital outstanding USD'000
Brazil	100,000	10,000,000	8,000,000	2,000,000	1,000,000	1,000,000
Russia	100,000	10,000,000	8,000,000	2,000,000	1,300,000	700,000
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	1,000,000	1,000,000
South Africa	100,000	10,000,000	8,000,000	2,000,000	990,788	1,009,212
Capital subscribed by members	500,000	50,000,000	40,000,000	10,000,000	4,990,788	5,009,212

22. PAID-IN CAPITAL – continued

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

1 Pursuant to Article 9 and attachment 2 of the Agreement each founding member's paid in capital stock is received in 7 instalments.

On December 31, 2018 all paid-in capital from founding members was received in accordance with the Agreement, and partial receipts relating to the fourth and fifth instalment have been received ahead of schedule.

23. OTHER RESERVES

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Accumulated impact on discounting of paid-in capital receivables	**(162,429)**	(266,646)
Total	**(162,429)**	(266,646)

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

24. RECONCILIATION OF ASSETS AND LIABILITIES ARISING 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. 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.

			Non-cash movements		
	As at January 1, 2018 USD'000	Cash inflows USD'000	Unwinding of interest USD'000	Impact of early payment USD'000	As at December 31, 2018 USD'000
Paid-in capital receivables	5,933,354	(1,190,788)	93,822	10,395	4,846,783
Total assets from Financing activities	5,933,354	(1,190,788)	93,822	10,395	4,846,783

			Non-cash movements			
	As at January 1, 2018 USD'000	Cash inflows USD'000	Interest accrued movements USD'000	Fair value changes USD'000	Cash outflows[1] USD'000	As at December 31, 2018 USD'000
Short-term borrowings	–	13,000	7	–	(13,007)	–
Bond	449,367	–	13,590	(5,245)	(13,903)	443,809
Total liabilities from Financing activities	449,367	13,000	13,597	(5,245)	(26,910)	443,809

			Non-cash movements		
	As at January 1, 2017 USD'000	Cash inflows USD'000	Unwinding of interest USD'000	Impact of early payment USD'000	As at December 31, 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 January 1, 2017 USD'000	Cash outflows[2] USD'000	Interest accrued movements USD'000	Fair value changes USD'000	As at December 31, 2017 USD'000
Bond	403,064	(13,600)	14,020	48,553	449,367
Total liabilities from Financing activities	403,064	(13,600)	14,020	48,553	449,367

1 The cash outflows represents interest of USD 13.9 million for bond which is recorded in the Bank's Statement of Cash Flows as net cash used in operating activities.
2 The cash outflows of USD 13.6 million represents an interest payment for the bond which is recorded in the Bank's Statement of Cash Flows as net cash used in operating activities.

25. COMMITMENTS

1) OPERATING LEASES COMMITMENTS

On December 31, 2018, the Bank had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Not later than one year	**99**	100
Later than one year and not later than five years	**153**	–
Total	**252**	100

2) CAPITAL COMMITMENTS

As at December 31, 2018, the Bank had no irrevocable capital expenditure commitments.

3) CREDIT COMMITMENTS

	As at December 31, 2018 USD'000	As at December 31, 2017 USD'000
Undrawn loan commitments		
Letters of effectiveness signed	**2,342,991**	1,321,545
Letter of effectiveness yet to be signed	**1,590,000**	300,000
Total	**3,932,991**	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 once the letters of effectiveness are signed.

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:

(1) NAME AND RELATIONSHIP

NAME OF RELATED PARTIES	RELATIONSHIP
The Federative Republic of Brazil	The Bank's shareholder
The Russian Federation	The Bank's shareholder
The Republic of India	The Bank's shareholder
The People's Republic of China	The Bank's shareholder
The Republic of South Africa	The Bank's shareholder

According to the Headquarters Agreement between the Bank and the Government of the People's Republic of China, the Headquarters of the Bank and other relevant facilities to support the Bank's operations have been provided from China, for free, for the year ended December 31, 2018 and for the year ended December 31, 2017.

26. RELATED PARTY DISCLOSURE – continued

(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 December 31, 2018:

NAME	COUNTRY	POSITION
Vaman Kundapur Kamath	India	President
Sarquis José Buainain Sarquis	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 December 31, 2018 USD'000	For the year ended December 31, 2017 USD'000
Salary and allowance	**2,427**	2,352
Staff Retirement Plan	**354**	343
Post- Retirement Insurance Plan	**61**	59
Other short-term benefits	**95**	65
Total	**2,937**	2,819

(4) USE OF OFFICE BUILDING AND OTHER FACILITIES

Based on Article 3 of the Headquarters Agreement, China shall arrange to build and furnish a suitable office building to serve as the Headquarters of the Bank and provide such other facilities as required for its operation free of charge.

27. SEGMENT INFORMATION

For the year ended December 31, 2018, 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 January 20, 2017. The PPF, established and administered by the Bank based on Article 3 of the Agreement, is an unconsolidated structured entity for accounting purposes. 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 other financial institutions. 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 does it generate significant variable interest to the extent that consolidation is required. Accordingly, the PPF is an unconsolidated structured entity for accounting purposes.

28. UNCONSOLIDATED STRUCTURED ENTITY – continued

Consistent with Article 18c of the Agreement, the ordinary capital resources of the Bank and the resources of the PPF 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 December 31, 2018, the PPF had received contributions amounting to USD 6.5 million (December 31, 2017: USD 4.5 million). The Bank has not earned any income from PPF for the year ended December 31, 2018.

29. RECLASSIFICATION OF COMPARATIVE FIGURES

As at December 31, 2017, USD 33.2 million accrued interest on deposits due from bank and USD 140,000 accrued interest on loans and advances were included in Other assets. The Bank reclassified the accrued interest included in Other assets, to Due from banks other than cash and cash equivalents and Loans and advances. As a result, the comparative figures of these line items have been amended in the Statement of Financial Position as at December 31, 2018 and the Statement of Cash Flows for the year ended December 31, 2018.

For the year ended December 31, 2018, the Bank has presented interest expense and interest paid separately in the net cash used in operating activities in the Statement of Cash Flows. As a result, the comparative figures of these line items have also been amended in the Statement of Cash Flows for the year ended December 31, 2018.

These reclassifications do not have a material effect on the information in the Bank's Statement of Financial Position and Statement of Cash Flows.

29. RECLASSIFICATION OF COMPARATIVE FIGURES – continued

The items were reclassified as follows:

Statement of Financial Position

	Previously reported As at December 31, 2017 USD'000	After reclassification As at December 31, 2017 USD'000
Due from banks other than cash and cash equivalents	3,212,404	3,245,623
Loans and advances	23,857	23,997
Other assets	34,001	642
	3,270,262	**3,270,262**

Statement of Cash Flows

	Previously reported As at December 31, 2017 USD'000	After reclassification As at December 31, 2017 USD'000
Interest expense	420	14,020
Operating cash flows before changes in operating assets and liabilities	36,642	50,242
Net increase in due from banks other than cash and cash equivalents	(927,510)	(941,526)
Net increase in loans and advances	(22,789)	(22,929)
Net increase in other assets	(14,554)	(398)
Interest paid	–	(13,600)

30. SUBSEQUENT EVENTS

On January 3, 2019, USD 300 million of paid-in capital relating to the 4th instalment was received from India.

On October 5, 2018, a loan agreement for USD 350 million was signed with India to finance the Madhya Pradesh Major District Roads II Project. This agreement became effective on January 17, 2019.

On October 5, 2018, a loan agreement for USD 175 million was signed with India to finance the Madhya Pradesh Bridges Project. This agreement became effective on January 17, 2019.

On January 21, 2019, a loan agreement for USD 300 million was signed with SIBUR Holding to finance general purpose infrastructure at the integrated petrochemical complex in Western-Siberian. This agreement became effective on January 21, 2019.

On November 20, 2018, a loan agreement for USD 350 million was signed with India to finance the Bihar Rural Roads Project. This agreement became effective on January 22, 2019.

On February 20, 2019, USD 9 million of paid-in capital was received from South Africa relating to the 4th instalment.

On August 20, 2018, a loan agreement for USD 470 million was signed with India to finance the Madhya Pradesh Multi Village Rural Water Supply Project. This agreement became effective on February 21, 2019.

On February 22, 2019, the Bank issued a RMB 3 billion bond consisting of two tranches:

- RMB 2 billion for a 3-year tenor with an annual fixed coupon rate of 3.0%; and
- RMB 1 billion for a 5-year tenor with an annual fixed coupon rate of 3.3%.

On March 15, 2019, a loan agreement for USD 300 million was signed with Development Bank of Southern Africa Limited to finance greenhouse gas emissions reduction and the energy sector development project. This agreement became effective on March 15, 2019.

31. APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements were approved by the Board of Governors and authorised for issuance on April 1, 2019.

Financial statements

PPF: FOR THE YEAR ENDED DECEMBER 31, 2018

RESPONSIBILITY FOR EXTERNAL FINANCIAL REPORTING

Senior Management's Responsibility

NDB's Senior Management is responsible for the preparation, integrity and fair presentation of the annual financial statements and all other information presented in the 2018 Annual Report. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) 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 control over external financial reporting for financial presentations, in conformity with IFRS. The ARC Committee, which assists the BoD 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 Senior 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 **104** and **105**.

Independent Auditor's Report

TO THE BOARD OF GOVERNORS OF THE NEW DEVELOPMENT BANK PROJECT PREPARATION FUND

Opinion

We have audited the financial statements of the New Development Bank Project Preparation Fund (the "PPF"), which comprise the statement of financial position as at December 31, 2018 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period from January 20, 2017 (the establishment date of the PPF) to December 31, 2018 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 PPF as at December 31, 2018 and of its financial performance and its cash flows for the period from January 20, 2017 (the establishment date of the PPF) to December 31, 2018 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 PPF 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.

Responsibilities of Management and the Board of Directors for the Financial Statements

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

Independent Auditor's Report

In preparing the financial statements, the management is responsible for assessing the PPF'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 PPF or to cease operations, or have no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the PPF'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 judgement 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 PPF'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 PPF'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 PPF 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 of the Bank 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 CPA LLP

Deloitte Touche Tohmatsu

Certified Public Accountants LLP
Shanghai, PRC

April 1, 2019

Statement of Profit or Loss and other Comprehensive Income

FOR THE PERIOD FROM JANUARY 20, 2017 TO DECEMBER 31, 2018

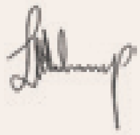
Expressed in thousands of USD	Notes	From January 20, 2017 to December 31, 2018
Interest income	6	**119**
Operating expenses	7	**(30)**
Profit for the period		**89**
Total comprehensive income for the year		**89**

Statement of Financial Position

AS AT DECEMBER 31, 2018

Expressed in thousands of USD	Notes	As at December 31, 2018
Assets		
Cash and cash equivalents	8	**6,619**
Total assets		**6,619**
Liabilities		
Other liabilities		**30**
Total liabilities		**30**
Equity		
Contribution	9	**6,500**
Retained earnings		**89**
Total equity		**6,589**
Total equity and liabilities		**6,619**

The financial statements on pages 106 to 117 were approved and authorised for issuance by the Board of Governors on April 1, 2019 and signed on their behalf by:



PRESIDENT

CHIEF FINANCIAL OFFICER

Statement of Changes in Equity

FOR THE PERIOD FROM JANUARY 20, 2017 TO DECEMBER 31, 2018

Expressed in thousands of USD	Note	Contributions	Retained earnings	Total
As at January 20, 2017		–	–	**–**
Profit for the period		–	89	**89**
Total comprehensive income for the year		–	89	**89**
Contribution	9	6,500	–	**6,500**
As at December 31, 2018		**6,500**	**89**	**6,589**

Statement of Cash Flows

FOR THE PERIOD FROM JANUARY 20, 2017 TO DECEMBER 31, 2018

Expressed in thousands of USD	From January 20, 2017 to December 31, 2018
Operating activities	
Profit for the period	**89**
Operating cash flows before changes in operating assets and liabilities	**89**
Net increase in other liabilities	**30**
Net cash used in operating activities	**119**
Financing activities	
Contributions received	**6,500**
Net cash from financing activities	**6,500**
Net increase in cash and cash equivalents	**6,619**
Cash and cash equivalents at the beginning of the period	**–**
Cash and cash equivalents at the end of the period	**6,619**

Notes to the Financial Statements

FOR THE PERIOD FROM JANUARY 20, 2017 TO DECEMBER 31, 2018

1. GENERAL INFORMATION

The Board of Governors of the New Development Bank (NDB or the Bank) approved the establishment of NDB Project Preparation Fund (PPF) on January 20, 2017 in accordance with Article 23a of the Agreement on the New Development Bank (Agreement).

The PPF is established as a multi-donor fund which is open to contributions by all the Bank's members (Contributors). 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 other financial institutions. As stipulated in Article 18c of the Agreement, the ordinary capital resources and the PPF resources of the Bank shall be held, used, committed, invested, or otherwise disposed of entirely separate from each other.

On September 4, 2017, the Bank signed a contribution agreement with the People's Republic of China (China) in respect of the commitment and contribution from China for USD 4,000,000. The Bank also signed a contribution agreement with the Ministry of Finance of the Russian Federation (Russia) on October 15, 2017 for USD 1,500,000 which will be received in 3 instalments. On April 19, 2018, the Bank signed a contribution agreement with the Republic of India (India), for USD 1,500,000 which was paid in one instalment.

As of December 31, 2018, contributions of USD 4,000,000 and USD 1,500,000 were received from China and India respectively and the first and second instalments, totalling USD 1,000,000 were received from Russia.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the financial statements, the PPF has applied International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs), amendments and the related Interpretations (IFRICs) (herein collectively referred to as the IFRSs) issued by the International Accounting Standards Board (IASB) which are effective for the accounting period from January 20, 2017 to December 31, 2018.

The PPF has applied the following IFRIC in accordance with IFRSs which are relevant to it for the first time in the current period:

The PPF has elected to early adopt the following new IFRSs since January 20, 2017 that have been issued by the IASB but not yet effective:

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

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

The PPF has not early adopted the following new or revised IFRSs that have been issued but not yet become effective:

IFRSs	
IFRS 16	Leases[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]

1 Effective for annual periods beginning on or after 1 January, 2019.

The PPF anticipates that the application of these new or revised IFRSs is unlikely to have a significant impact on the PPF's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

BASIS OF PREPARATION

The financial statements from January 20, 2017 to December 31, 2018 have been prepared on the historical cost basis in accordance with the accounting policies set out below which, are in conformity with IFRSs.

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 PPF takes into account the characteristics of the asset or liability, if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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 Through Profit and Loss (FVTPL) 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 active markets for the financial assets or the liabilities that the PPF can access at the measurement date.
- 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.

The preparation of the financial statements, in conformity with IFRSs, requires the use of certain accounting estimates. This requires management to exercise its judgement in preparing the financial statements.

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

REVENUE

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 (including a group of financial assets) 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 to the gross carrying amount of a financial asset. When calculating the effective interest rate, the PPF 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.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

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 PPF's financial instruments currently only consist of cash and cash equivalents.

Financial assets and financial liabilities are recognised in the statement of financial position when the PPF 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

FINANCIAL ASSETS

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

- Financial assets at FVTPL;
- Financial assets measured at amortised cost; and
- Financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI).

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

Financial assets at FVTPL

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at FVTOCI. Upon initial recognition, financial instruments may be designated as FVTPL. A financial asset may only be designated at 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 PPF classifies a financial 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 in order to collect contractual cash flows; and

- The contractual terms of the financial asset gives rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

FINANCIAL INSTRUMENTS – continued
INITIAL RECOGNITION AND MEASUREMENT – continued

Financial assets measured at FVTOCI
The PPF classifies a financial asset at FVTOCI if it is 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 the contractual terms of the financial asset gives rise to cash flows on specified dates that are SPPI.

FINANCIAL LIABILITIES AND EQUITY
A financial liability is a 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 PPF or a contract that will or may be settled in the PPF's own equity instruments and is a non-derivative contract for which the PPF is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over the PPF's 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 PPF'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 PPF are recognised at the proceeds received, net of direct issue costs.

The PPF's financial liabilities are measured at amortised cost, using the effective interest method.

The PPF recognises contributions as equity on the basis that the contribution agreement does not include a contractual obligation to pay cash or another financial asset and there are no other features that would meet the definition of a financial liability.

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

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION – continued

FINANCIAL INSTRUMENTS – continued

IMPAIRMENT – continued

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 are not credit impaired, a lifetime ECL is recognised.

iii) Stage 3: Lifetime ECL – credit impaired

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. For financial assets that are credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost rather than the gross carrying amount. The PPF 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 4.

DERECOGNITION OF FINANCIAL INSTRUMENTS

The PPF 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 PPF derecognises a financial asset if substantially all the risks and rewards have either been transferred or if control is not retained. The PPF derecognises financial liabilities when the PPF'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.

CASH AND CASH EQUIVALENTS

Cash comprises deposits that can be readily withdrawn on demand. Cash equivalents are the PPF's short-term, highly liquid investments that are readily convertible to known amounts of cash within three months and are not subject to a significant risk of change in value.

4. FINANCIAL RISK MANAGEMENT

OVERVIEW

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

The PPF is set up to assist the development needs of a project to reach a bankable status in a co-ordinated, targeted and cost-effective manner, rather than to generate a return on its assets. The PPF was not exposed to many financial risks with the exception of credit risk and interest rate risk associated with the financial institutions with which it deposited its cash resources for the period from January 20, 2017 to December 31, 2018. The impact of a change in interest rates during the reporting period is not considered significant by management.

CREDIT RISK

The PPF takes on exposure to credit risk, which is a risk that one counterparty to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The PPF placed its cash equivalents with highly rated banks (senior investment grade credit ratings) in mainland China. There has been no significant increase in credit risk since initial recognition associated with the amounts due from banks up to December 31, 2018. All the financial instruments of the PPF as of December 31, 2018 are measured at amortised cost.

5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

6. NET INTEREST INCOME

	For the period from January 20, 2017 to December 31, 2018 USD'000
Interest income from banks	119
Total interest income	**119**

7. OPERATING EXPENSES

	For the period from January 20, 2017 to December 31, 2018 USD'000
Auditors remuneration	28
Other expenses	2
Total	**30**

8. CASH AND CASH EQUIVALENTS

	As at December 31, 2018 USD'000
Deman deposit	218
Time deposit with original maturity within three months	6,401
Total	**6,619**

9. CONTRIBUTIONS

As at December 31, 2018	Contribution Committed USD'000	Contribution Received USD'000
China	4,000	4,000
India	1,500	1,000
Russia	1,500	1,500
Total	**7,000**	**6,500**

10. RELATED PARTY DISCLOSURES

The PPF's related parties are the Bank and the Contributors.

Please refer to Note 9 for the contributions received from the Contributors as of December 31, 2018.

11. SUBSEQUENT EVENTS

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

12. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Governors of the Bank and authorised for issuance on April 1, 2019.

List of Acronyms and Definitions

ACRONYM/DEFINED TERM	DEFINITION
AoA or Agreement	Articles of Agreement
ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
ARC	Africa Regional Centre
ARC Committee	Audit, Risk and Compliance Committee
ARO	Americas Regional Offices
BHRC Committee	Budget, Human Resources and Compensation Committee
BNDES	Banco Nacional de Desenvolvimento Econômico e Social
BoD	Board of Directors
BoG	Board of Governors
BRICS	Brazil, Russia, India, China and South Africa
CEO	Chief Executive Officer
CIC	Credit and Investment Committee
CMF	Capital Management Framework
CO_2	Carbon dioxide
DBSA	Development Bank of Southern Africa
EAD	Exposure at Default
ECL	Expected Credit Loss
EMDC	Emerging Markets and Developing Countries
ESF	Environmental and Social Framework
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FVTOCI	Fair Value Through Other Comprehensive Incom
FVTPL	Fair Value through Profit and Loss
G20	Informal group of 19 countries and the European Union, with representatives of the IMF and the World Bank
GDP	Gross Domestic Product
GI	Global Infrastructure
Green Bond Project Requirements	The People's Bank of China Announcement No. 39 (2015); Preparation Instructions on Green Bond Endorsed Project Catalogue (2015 Edition)
GW	Gigawatts
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBRD	International Bank for Reconstruction and Development

ACRONYM/DEFINED TERM	DEFINITION
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	International Standards on Auditing
ISDA	International Swaps and Derivatives Association
km	Kilometre
KMP	Key Management Personnel
kWh	Kilowatt hours
LEED	Leadership in Energy and Environmental Design
LGD	Loss Given Default
MCA	Master Co-operation Agreement
MDB	Multilateral Development Bank
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MW	Megawatts
NDB or Bank	New Development Bank
NGO	Non-Governmental Organisations
NII	Net Interest Income
NPV	Net Present Value
PD	Probability of Default
PML	Prudential Minimum Level of Liquidity
PPF	Project Preparation Fund
PPP	Purchasing Power Parity
PRP	Post Retirement Plan
RMB	Renminbi
RUB	Russian Ruble
RSFSR	Russian Soviet Federative Socialist Republic
Senior Management	President and Vice Presidents
SDG	Sustainable Development Goals
SPPI	Solely Payments of Principal and Interest
SRP	Staff Retirement Plan

List of Acronyms and Definitions

ACRONYM/DEFINED TERM	DEFINITION
S&P	Standard and Poors
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TEU	Twenty Foot Equivalent Unit
UN	United Nations
UNGA	United Nations General Assembly
US	United States
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
VP	Vice President
WARR	Weighted Average Risk Rating
WTG	Wind Turbine and Generator
ZAR	South African Rand

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